ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)
Second Quarter Fiscal 2018 Management's Discussion and Analysis
For the three and six months ended December 31, 2017
Dated: February 13, 2018

The following Management's Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2017 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the Annual Information Form for the year ended June 30, 2017 are available at www.absolute.com and www.sedar.com.

This MD&A contains certain forward-looking statements, which relate to future events or the Company's future business, operations and financial performance and condition, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall", "scheduled" and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company's control and which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A.

This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) the continuing market demand for computing endpoint security, management, tracking and investigation products, services, and solutions; (b) the Company's attainment of certain revenue, profit and cash flow targets; (c) the Company's ability to successfully execute on its growth strategies, including attracting new customers and distribution partners, successfully launching new product features and functions, and marketing or branding campaigns; (d) the Company developing solutions that are compatible with new and emerging computing device operating systems and platforms; (e) the continuation of computing device refresh/replacement cycles; (f) the Company's ability to successfully compete in an increasingly competitive landscape; (g) the continuation of embedded firmware, distribution and resale support from its current and future OEM partners; (h) the continued and increased demand for the Company's products and services; (i) the Company's ability to gain access to, and generate sales in, domestic and international markets; (j) the Company's ability to attract and retain key employees, executives and advisors; (k) the Company's ability to protect against the improper disclosure of customer data we may process, store and/or manage; (l) any statements as to future dividend issuances or increases; and (m) other expectations, intentions, projections and plans contained in this document that are not historical facts.

The key assumptions underlying the aforementioned forward-looking statements are that: (a) the increasing adoption of mobile computing devices will lead to an increased demand for endpoint data protection and tracking products, services and solutions; (b) the Company's continued investments in sales, marketing, research and product development will lead to growth in its business as the worldwide information security, computer and mobile device markets grow; (c) the Company will be able to continue to add new features and functions to maintain and broaden the appeal of its product suite; and (d) the Company will expand and be able to benefit from its portfolio of intellectual property, including patents. Certain or all of the foregoing assumptions may prove to be incorrect which could negatively impact the Company's business, operations and financial performance and condition and the anticipated results discussed herein or in the documents incorporated by reference.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, some of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other companies; the impact of general economic and industry conditions, both domestically and internationally; fluctuations in foreign exchange or interest rates; global decreases in the prices of mobile computing devices; changes in technological innovation, including new device types, operating systems and platforms; changes in laws and regulations (including new employment, tax, intellectual property, immigration, privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal, provincial and state tax laws and legislation; global political instability, increased nationalism and protectionism and political uncertainty; the lack of availability of qualified personnel or management; stock market volatility and market valuations of information security companies; and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in this MD&A and the Company's Annual Information Form for the year ended June 30, 2017. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

The words "we", "our", "us", "Company" and "Absolute" refer to Absolute Software Corporation, together with its subsidiaries, and/or the management and employees of the Company.

All dollar figures are stated in U.S. dollars unless otherwise indicated.

Selected Quarterly Information

USD Millions, except per share data	Q2			YTD		
	F2018	F2017	Change	F2018	F2017	Change
Revenue						
Commercial recurring[1]	**$ 22.1**	$ 21.1	*5%*	**$ 43.8**	$ 41.9	*5%*
Other	**$ 1.1**	$ 1.4	*(16%)*	**$ 2.4**	$ 3.0	*(22%)*
Total	***$ 23.2***	*$ 22.5*	*3%*	***$ 46.2***	*$ 44.9*	*3%*
Adjusted EBITDA[2]	**$ 2.4**	$ 1.7	*38%*	**$ 3.7**	$ 3.6	*2%*
As a percentage of revenue	**10%**	8%		**8%**	8%	
Net (Loss) Income	**$ (0.3)**	$ (1.8)	*81%*	**$ (0.5)**	$ (2.6)	*81%*
Per share (basic)	**$ (0.01)**	$ (0.05)		**$ (0.01)**	$ (0.07)	
Per share (diluted)	**$ (0.01)**	$ (0.05)		**$ (0.01)**	$ (0.07)	
Cash from (used in) operating activities	**$ 3.2**	$ (1.2)	*369%*	**$ 5.3**	$ 0.7	*659%*
Dividends paid	**$ 2.5**	$ 2.3	*8%*	**$ 5.0**	$ 4.7	*6%*
Per share (CAD)	**$ 0.08**	$ 0.08	-	**$ 0.16**	$ 0.16	-
Cash, equivalents, and short-term investments	**$ 33.4**	$ 37.7	*(11%)*			
Total assets	**$ 92.3**	$ 98.6	*(6%)*			
Deferred revenue	**$ 136.3**	$ 133.7	*2%*			
Common shares outstanding	**40.1**	39.0	*3%*			

(1) Commercial recurring revenue represents revenue derived from term licenses and recurring managed services, both of which are included as part of our Commercial ACV Base. Other revenue represents revenue derived from professional services and ancillary product lines, including consumer products.

(2) Throughout this document, "Adjusted EBITDA" is used as a profitability measure. Please refer to the "Non-IFRS Measures" section of this MD&A for further discussion on this measure.

Q2-F2018 and YTD Overview

Key Financial Metrics

- Commercial recurring revenue in Q2-F2018 increased 5% year-over-year to $22.1 million. Year-to-date commercial recurring revenue increased 5% over the prior year-to-date period to $43.8 million.
- Total revenue in Q2-F2018 was $23.2 million, representing a year-over-year increase of 3%. Year-to-date total revenue was $46.2 million, representing an increase of 3% over the prior year-to-date period.
- The Commercial Annual Contract Value ("ACV") Base at December 31, 2017 was $89.6 million, an increase of 4% year-over-year and 1% sequentially.
- The enterprise portion of the ACV Base increased 12% year-over-year and was up 3% sequentially. Enterprise customers represented 52% of the December 31, 2017 ACV Base, compared to 48% in the prior year. The public sector portion of the ACV Base decreased 3% year-over-year and was down 1% sequentially.
- Net ACV Retention from existing Absolute customers was 100% during Q2-F2018, consistent with 100% in Q2-F2017.
- Incremental ACV from New Customers was $1.1 million in Q2-F2018 compared to $2.1 million in Q2-F2017.
- Adjusted EBITDA in Q2-F2018 was $2.4 million, or 10% of revenue, compared to $1.7 million, or 8% of revenue, in Q2-F2017. For the year-to-date period, Adjusted EBITDA was $3.7 million, or 8% of revenue, compared to $3.6 million, or 8% of revenue in the prior year period.
- Cash generated from operating activities in Q2-F2018 was $3.2 million compared to negative $1.2 million in Q2-F2017. For the year-to-date period, cash generated from operating activities was $5.3 million compared to $0.7 million in the prior year period. The prior year figures are net of reorganization and income tax payments of $0.8 million and $4.9 million in the quarterly and year-to-date periods, respectively.
- Absolute paid a quarterly dividend of CAD$0.08 per common share during Q2-F2018.

Products and Organizational Developments

- In October 2017 we announced the appointment of Dean Ćoza as Executive Vice President, Products. Most recently the Senior Vice President of Product Management at FireEye, Mr. Ćoza brings to Absolute a track record of scaling and accelerating adoption of a broad range of security products that address customers' endpoint security challenges. With 20 years of product strategy experience, Mr. Ćoza will lead our product management, product marketing, and user experience organizations.
- In September 2017 we released the new Absolute 7 platform. Adoption of Absolute 7 has been strong, driven primarily by the introduction of the Absolute Reach feature, a breakthrough in the automation of endpoint security hygiene. Absolute Reach enables customers to accelerate incident response and vulnerability remediation by executing custom query and remediation scripts across their entire endpoint populations, including devices outside the corporate network. The power of these capabilities was demonstrated in January 2018 when we provided our customers with query and remediation scripts for Meltdown and Spectre within days of the announcement of these vulnerabilities.

Company and Product Overview

Absolute provides a cloud-based endpoint visibility and control platform that enables the management and security of endpoint computing devices for enterprise and public sector organizations. Our unique solutions incorporate self-healing endpoint security and always-connected IT asset management, enabling our customers to protect devices, data, applications and users, both on and off the corporate network. These solutions are enabled by our patented Persistence® technology, which is embedded in the firmware of laptop, desktop, tablet and mobile devices (collectively, "endpoint devices") from the majority of the world's largest global computer manufacturers ("OEM"s). Our platform enables IT and security professionals to see, manage and secure endpoint devices, data and applications in order to enhance IT asset management, protect sensitive data, reduce vulnerabilities, and ensure compliance with corporate policies and privacy regulations. We currently serve more than 15,000 commercial customers globally, protecting more than seven million customer devices. Our website is located at www.absolute.com.

Our market opportunity is driven by the increasing adoption of mobile computing, the proliferation of sensitive data resident on these endpoint devices, and an increasing regulatory and corporate emphasis on information security and data privacy protection. Endpoint devices also commonly serve as vulnerable access points to enterprise networks. Increasingly, enterprise data breaches are associated with these endpoint devices for reasons such as missing or corrupted security or management applications, unauthorized usage (due to loss or theft) and insider threats (e.g. employee fraud or external parties gaining access to insider credentials). Due to the fact that traditional endpoint management and security tools are generally dependent on devices being connected to the corporate network, these tools are often inadequate in their ability to fully monitor and secure off-network endpoint devices.

Our exclusive Persistence technology is embedded into the firmware of endpoint devices at the point of manufacture by most of the world's leading OEMs. Once activated, Persistence provides a reliable, highly tamper-resistant, two-way connection between the device and our cloud-based monitoring center, even when the device is off the corporate network and beyond the reach of other IT management and security tools. Persistence is a key differentiator for us, as it enables the Absolute platform to provide a high degree of visibility and control over computing endpoints. Persistence also enables our software agent and other critical third-party software agents to be highly tamper-resistant on an endpoint. If efforts are made to remove the software agent, an automatic reinstallation will occur, even if the firmware is overwritten or flashed, the device is reimaged, the hard drive is replaced, or if the device is restored to its factory settings.

The Absolute cloud platform is our endpoint security and data risk management solution that leverages Persistence for uncompromised visibility and near real-time remediation. The platform features a dashboard that enables customers to continually monitor the status and security posture of their endpoint devices, including the health of critical third-party security and management applications and the presence of sensitive data. With Absolute, customers can configure security alerts based on changes in user or device activity. Examples include the presence of sensitive information on the device or in the cloud (e.g. patient or customer information); the status of business-critical applications such as encryption or anti-virus; or unauthorized user activity such as the movement of a device outside of a defined geographic boundary. In the event of a suspected security threat, customers can initiate remote remediation actions such as file encryption, device freeze and data delete or can engage our investigations team to perform remote investigations on the device.

The Absolute platform includes Absolute Reach, a powerful custom query and remediation feature. Absolute Reach provides customers with the ability to launch custom commands to detect, understand,

and remediate emerging vulnerabilities across their endpoint devices on-demand. This feature enables customers to gather precise contextual insights, execute custom workflows, and deploy automation commands to remediate dark endpoints, ransomware attacks, and other endpoint vulnerabilities. With the ability for customers to write custom commands, Absolute Reach enables asset managers and security professionals to proactively address an endless number of use cases.

Absolute customers can also subscribe to Application Persistence, which leverages our Persistence technology to maintain the installation and integrity of any third-party endpoint software agent on a customer's computing endpoints. This unique self-healing endpoint security capability supports applications such as encryption, anti-malware, patching, VPN, client management tools and other installations. Application Persistence allows our customers to be confident and compliant in providing consistent security coverage across all enabled devices, on and off the corporate network.

The information collected by Absolute can be integrated into third-party security information and event management ("SIEM") systems in order to correlate endpoint risk with other sources of security intelligence, thereby improving the returns our customers realize on pre-existing technology investments.

Business Model

Our solutions are cloud-based and delivered in a software-as-a-service ("SaaS") business model. The majority of our customer arrangements are contracted under a subscription licensing model, with contract terms ranging from one to five years. In most cases subscriptions are invoiced in advance for the entire licensed term on ordinary invoice and payment terms. Our prepaid customer contract terms have historically averaged approximately 36 months.

Absolute solutions are offered in specific versions for Enterprise and Education. All versions are available in three editions: Visibility (Standard), Control (Professional) and Resilience (Premium), each of which provides a different subset of product features and functionality.

We operate a direct sales force with responsibility for solution selling and relationship management with our end customers. During the selling process, we usually co-engage with our OEM, value-added reseller ("VAR") and distribution partners (see "Partner Ecosystem" below). Customer orders generally flow from our customers to our partners, who then place orders directly with Absolute. We generate approximately 75-80% of our total revenues in conjunction with our OEM partners.

We have offices in Vancouver, Canada; Austin, USA; Des Moines, USA; Reading, UK; Ho Chi Minh City, Vietnam; and Tokyo, Japan. We also service additional geographies through our remote sales force and through our partner network. Our products and customer support services are available in 10 languages. We have sales distribution agreements with global OEMs and a number of other in-country resellers in Europe, the Asia-Pacific region and Latin America.

Growth Strategy

We are focused on one of the most rapidly growing segments for technology expenditures: information security. Our growth strategy focuses on the following:

Vertical market expansion – We believe that our opportunity for growth is strongest in the enterprise vertical, which includes a broad range of industries including healthcare, financial services and professional services, where there is a high proportion of mobile employees and where the consequences of a data breach are high. We are therefore directing a substantial portion of our product, sales and marketing investments to drive growth in these markets.

We also believe there are continuing growth opportunities in the public sector vertical, which is comprised of education, state, local and federal government entities. Our recent sales declines in this vertical have reflected the historical concentration of our sales to the U.S. education vertical, which comprises approximately 38% of our total commercial revenue, and a secular trend specific to that market. While customers in the enterprise vertical generally associate the value of our solution with the protection of information, many of our customers within the education vertical have historically associated the value of our solution with the protection and recovery of devices. As a result, we have seen a correlation between declining device prices and our average selling prices in the education vertical.

We believe that recent and upcoming enhancements to our education offering, such as student device usage analytics, the bundling of managed services with our offerings, and the offering of site licensing alternatives will broaden the appeal of our solutions and will provide a value proposition distinct from device recovery. As such, we believe that we have an opportunity to stabilize our sales to the education vertical. Additionally, we expect growth in other public sector markets, such as state, local and federal government, where the market sizes are significantly larger than education and where the value proposition of our solutions parallels that of the enterprise vertical.

Product development – Over the course of fiscal 2017, we increased our investment in product research and development in order to expand on the capabilities of our product platform and our Persistence technology. Product development is a key element of our growth strategy. Our product development efforts are centered on leveraging our existing product solution and our unique Persistence technology to deliver more value to existing and new customers. These product development investments are focused on three initiatives: first, to continue the development of the data, user, device and application awareness capabilities of Absolute, with a near-term emphasis on bolstering user awareness and analytics capabilities; second, to continue to extend Persistence to self-heal additional third-party applications, thereby enhancing the value we deliver to our customers and improving returns that our customers realize on pre-existing technology investments; and finally, to evolve our cloud-based platform in order to increase the scalability and extensibility of our back-end platform and to enable the offering of a private cloud version of Absolute solutions. In addition, we have recently released product features targeted at the education market such as device usage analytics, specifically related to student usage.

We believe that our product development initiatives will support our objective of growing revenue and expanding our ACV Base. For our existing customers, ongoing product development promotes the high levels of customer retention we historically have experienced and provides a compelling upsell and expansion opportunity on which we have begun to capitalize. With our new customers, particularly those in the enterprise vertical, we believe there is a trend towards purchasing product tiers that include higher levels of functionality and a corresponding higher per unit ACV.

In conjunction with our internal product development efforts, we maintain an ongoing program to evaluate potential acquisition candidates.

Market awareness – We are investing in marketing activities to drive brand awareness within our target markets and position Absolute as the standard for endpoint visibility and control within key markets in North America and internationally.

Geographic market expansion – Our near term focus is on growing our North American business and, as a result, we are approaching our international sales expansion efforts in a limited and focused manner. Currently, we generate approximately 90% of our revenue within North America; however, international markets account for roughly half of the total global IT security market. As a result, we believe that there is a significant opportunity to further expand sales internationally, and as such, we have a relatively small direct sales investment in the UK and an indirect sales model in the Asia Pacific and Latin American markets. We anticipate continued variability in our international sales results until our international businesses achieve maturity.

Competition

We have historically had few direct competitors for our Absolute product line and believe our solutions are complementary to most endpoint security and management solutions. On occasion, we encounter companies offering a subset of our competitive technology such as IT asset management, device tracking, and remote locking and wiping. Examples include enterprise IT asset management companies such as Tanium, public sector computer tracking software vendors such as Prey, Inc., and various enterprise mobility management vendors that provide management solutions for smartphones and tablets. Based on our proprietary self-healing Persistence technology and accompanying off-network capabilities, unique feature and services offerings, broad device and platform coverage, extensive OEM relationships and extensive patent portfolio, we believe that we maintain a distinct competitive advantage in the marketplace.

In the information security market, we also compete indirectly with, but also complement, companies that offer other forms of endpoint security solutions, such as encryption and data loss prevention solutions. However, Absolute is generally purchased as a complement to these solutions and enhances these solutions by providing status reporting on their presence and activity on the endpoint, as well as the ability to self-heal these applications through our Persistence technology.

Patent Portfolio

We have a portfolio of 105 issued patents and currently have 54 new patent applications in process.

Due to the nature of our patent portfolio, from time to time the Company is involved in assertions and claims of patent infringement as both the initiating party and, from time to time, as a respondent to such claims.

Partner Ecosystem

Our partner ecosystem is an essential component of our business strategy. Our primary partners are OEMs who are both key collaborative technology partners and key distribution partners.

Our OEM partners have adopted Absolute Persistence technology as a standard and have embedded it in the firmware of laptop, desktop, tablet and smartphone devices. This is an important collaboration for Absolute, as the embedded support enhances the persistence (ability to survive unauthorized or unintentional removal attempts) of our software, which is a key differentiator for us. Persistence technology is normally shipped in a dormant state and is activated after the customer purchases and installs the Absolute software agent.

The following table lists OEMs who provide embedded support for our Persistence technology:

Aava Mobile (since 2015)	MPS Mayorista (since 2015)
Acer (since 2009)	Mustek Systems (since 2015)
ASUS (since 2009)	NCS Technologies, Inc. (since 2007)
BAK (since 2018)	Panasonic (since 2006)
DDM Brands (since 2014)	PC Smart SA (since 2013)
Dell (since 2005)	Pinnacle Africa (since 2015)
Fujitsu (since 2006)	Positivo Informatica SA (since 2014)
GammaTech (since 2008)	Prestigio (since 2015)
Getac (since 2008)	Samsung (since 2011)
HP (since 2005)	Toshiba (since 2006)
Inforlandia LDA (since 2013)	VAIO (since 2017)
Intel (Classmate Computer) (since 2009)	Xplore Technologies (since 2008)
Lenovo (since 2005)	Yezz (since 2015)
Microsoft (since 2014)	

Subscription Billings

We sell our solutions under a term license model in which customers acquire subscriptions to our software-based services for a specified term ranging from one to five years. The majority of these subscriptions are fully invoiced up-front for the entire licensed term (on ordinary payment terms and non-refundable), with an historical average prepaid license term of 36 months. We refer to our total invoiced sales in a period as our total "Billings".

We also offer an Enterprise Licensing Agreement ("ELA") model, which provides customers with the option to license our software for multiple years and pay annually. The ELA model was introduced in order to match the buying preferences of some of our enterprise customers and generally results in a positive impact to ACV compared to multi-year prepaid licenses. While only a small percentage of our customer base has licensed our software through the ELA model, we do expect it to become a larger percentage of our new customer license sales over time and that, as a result, our average prepaid license term may decrease over time.

From a financial reporting perspective, the amount invoiced by us is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position and is recognized as revenue ratably over the contract term. Due to the fact that the majority of our Billings are for terms longer than one year, in general only 15-25% of total Billings reported for any given fiscal year are also recognized as revenue in the same fiscal year. As a result of this business model, in times of rapid growth, earnings under International Financial Reporting Standards ("IFRS") will often decrease or losses increase, while operating cash flow will accelerate.

Seasonality

Our quarterly cash from operating activities is affected by the timing of our customer Billings, with cash collections in one quarter having a high correlation to Billings in the previous quarter. Historically, a higher concentration of Billings have occurred in the first and fourth quarters of each fiscal year. This has been primarily due to higher activity in the North American education sector during these quarters. As we increase the proportion of our sales into the enterprise vertical, we expect the seasonal correlation of our overall Billings to the education market buying season to become less pronounced.

Non-IFRS Measures

Throughout this MD&A, we refer to a number of measures which we believe are meaningful in the assessment of the Company's performance. Many of these metrics are non-standard measures under IFRS and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these items is meant to add to, and not replace, the discussion of financial results or cash flows from operations as determined in accordance with IFRS.

The purpose of these non-IFRS measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or uncontrollable items on the Company's operating performance. Share-based compensation and non-cash amortization of acquired intangible assets are being excluded from the Company's operating expenses because the decisions which gave rise to these expenses were not made to increase sales in a particular period, but were made for the Company's long-term benefit over multiple periods. While strategic decisions, such as those to issue share-based awards or to acquire intangible assets, are made to further the Company's long-term strategic objectives and do impact the Company's earnings under IFRS, these items affect multiple periods and management is not able to change or affect these items within any particular period. As such, supplementing IFRS disclosure with non-IFRS disclosure using the non-IFRS measures outlined below provides management with an additional view of operational performance by excluding expenses that are not directly related to performance in any particular period. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the company's performance.

These measures, as well as their method of calculation or reconciliation to IFRS measures, are as follows:

a) Commercial ACV Base, Net ACV Retention and ACV from New Customers

As the majority of our customer contracts are sold under prepaid multi-year term licenses, there is a significant lag between the timing of the invoice and the associated revenue recognition. As a result, we focus on the aggregate annualized value of our subscriptions under contract, measured by Annual Contract Value ("ACV"), as an indicator of our future recurring revenues.

Commercial ACV Base measures the amount of recurring annual revenue we will receive from our commercial customers under contract at a point in time, and therefore is an indicator of our future revenue streams. The Commercial ACV base will change over a period through the retention, attrition and expansion of existing customers, and the acquisition of new customers.

Net ACV Retention measures the percentage increase or decrease in the Commercial ACV Base at the end of a period for customers that comprised the Commercial ACV Base at the beginning of the same period. This metric provides insight into the effectiveness of our activities to retain and expand the ACV of our existing customers.

ACV from New Customers measures the addition to the Commercial ACV base from sales to new commercial customers during the quarter.

We believe that increases in the amount of ACV from New Customers, and improvement in our Net ACV Retention, will accelerate the growth of our Commercial ACV Base and, in turn, our future revenues.

b) Adjusted Operating Expenses

A number of significant non-cash expenses are reported in our Cost of Revenue and Operating Expenses. In addition, restructuring and reorganization charges and post-retirement benefits are also reported in Operating Expenses. Management defines "Adjusted Operating Expenses" as IFRS Cost of Revenue and Operating Expenses adjusted for these items, as we believe that analyzing these expenses exclusive of these items provides a useful measure of the cash invested in operating the ongoing business. The non-cash items include share-based compensation, amortization of acquired intangible assets, and amortization of property and equipment.

Specifically, management adjusts for the following items in computing its Adjusted Operating Expenses:

1) *Share-based compensation:* Our compensation strategy includes the use of share-based awards to attract and retain key employees, executives and directors. It is principally aimed at aligning their interests with those of our shareholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, share-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.

2) *Amortization of Acquired Intangible Assets:* We believe that amortization of acquired intangible assets is not necessarily reflective of current period operational activities. In particular, the amortization of acquired technologies and customer relationships relates to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition or when other intangible assets are acquired. While it is continually reviewed for potential impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.

3) *Amortization of Property and Equipment:* We believe that amortization of property and equipment is not necessarily reflective of current period operational activities. In particular, the costs associated with these assets relate to operational decisions made in prior periods. Amortization of these costs is a static expense, one that is typically not affected by operations during any particular period.

4) *Restructuring or Reorganization Charges and Post-Retirement Benefits:* We believe that costs incurred in restructuring or reorganization, and certain significant post-retirement benefits afforded to executives upon departure from the Company, are not necessarily reflective of current period operational activities. In particular, these items relate to decisions which will impact future operating periods. The magnitude of these expenses is typically determined by contractual law, common law, or by statute, and is unaffected by operations and performance in any particular period.

Please see the following for a reconciliation of Cost of Revenue and Operating Expenses to Adjusted Operating Expenses:

	Three months ended December 31,					
	2017			2016		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted**	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	**$ 3.6**	**$ (0.0)[1]**	**$ 3.6**	$ 3.9	$ (0.4)[1][3]	$ 3.5
Total Operating Expenses	**18.4**	**(1.2)[2]**	**17.2**	20.6	(3.4)[2][3]	17.2
Adjusted Operating Expenses	**$ 22.0**	**$ (1.2)**	**20.8**	$ 24.5	$ (3.8)	$ 20.7

	Six months ended December 31,					
	2017			2016		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted**	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	**$ 7.2**	**$ (0.1)[1]**	**$ 7.1**	$ 7.4	$ (0.6)[1][3]	$ 6.8
Total Operating Expenses	**38.1**	**(2.7)[2]**	**35.4**	40.3	(5.8)[2][3]	34.5
Adjusted Operating Expenses	**$ 45.3**	**$ (2.8)**	**$ 42.5**	$ 47.7	$ (6.4)	$ 41.3

Notes:

(1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.

(2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.

(3) Post-retirement benefits and reorganization charges per Note 8 of the Condensed Consolidated Financial Statements.

c) Adjusted Earnings before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

Management believes that analyzing operating results exclusive of the significant non-cash items noted above provides a useful measure of the Company's performance. The term Adjusted EBITDA refers to earnings before deducting interest income or expense, income taxes, amortization of acquired intangible assets and property and equipment, foreign exchange gains or losses, share-based compensation, reorganization charges and post-retirement benefits. The items excluded in the determination of Adjusted EBITDA include share-based compensation, amortization of acquired intangible assets, amortization of property and equipment and restructuring or reorganization charges and post-retirement benefits. See point (b) above for a discussion of these items.

The following table provides a reconciliation of our Operating Income to Adjusted EBITDA:

	Three months ended December 31,					
	2017			**2016**		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted EBITDA**	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	**$ 1.2**	**$ 1.2**[(1)(2)]	**$ 2.4**	$ (2.1)	$ 3.8[(1)(2)(3)]	$ 1.7

	Six months ended December 31,					
	2017			**2016**		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted EBITDA**	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	**$ 0.9**	**$ 2.8**[(1)(2)]	**$ 3.7**	$ (2.8)	$ 6.4[(1)(2)(3)]	$ 3.6

Notes:

(1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.

(2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.

(3) Post-retirement benefits and reorganization charges per Note 8 of the Condensed Consolidated Financial Statements.

d) Billings

See the "Subscription Billings" and "Seasonality" sections of this MD&A for a detailed discussion of Billings. Billings are a component of deferred revenue (see Note 7 of the Notes to the Condensed Consolidated Financial Statements) and result from invoiced sales of our solutions. Most of our Billings relate to prepaid term license subscriptions, which have historically averaged approximately 36 months. We view Cash from Operating Activities as a meaningful performance metric, and the total amount of our Billings in a period will have a material impact on our operating cash flows.

FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

Commercial Annual Contract Value Base

The Commercial ACV Base measures the annualized value of recurring revenue we have under contract with our commercial customers at a point in time, and is therefore a direct indicator of our future recurring revenue streams. The increase or decrease in our Commercial ACV Base during a given period measures our success in impacting the amount of future annual revenue that will be earned by the Company. The Commercial ACV Base will increase (or decrease) in a period through the retention (or attrition) and expansion (or contraction) of service subscriptions from existing commercial customers, and through the acquisition of new commercial customers.

Our success with respect to the retention and expansion of service subscriptions from existing commercial customers during a period is represented by our Net ACV Retention rate, and our success with respect to acquiring new commercial customers during a period is measured by the amount of incremental ACV from new commercial customers ("ACV from New Customers"). In Q2-F2018, Net ACV Retention from existing commercial customers was 100%, consistent with 100% in Q1-F2018 and Q2-F2017. ACV from New Customers was $1.1 million in Q2-F2018, up from $0.8 million in Q1-F2018 and down from $2.1 million in Q2-F2017.

The following table shows the components of our Commercial ACV Base broken out by industry vertical and geography. In addition, it shows the percentage increase in the Commercial ACV base over the trailing four quarters ("T4Q"), as well as the sequential quarterly ("QoQ") percentage increase (decrease) in our Commercial ACV Base, also broken out by industry vertical and geography:

(millions of USD)	**Q2-F2018**	Q1-F2018	Q4-F2017	Q3-F2017	Q2-F2017
Commercial ACV Base – Total	**$ 89.6**	$ 88.5	$ 87.8	$ 88.2	$ 86.2
Enterprise	***46.2***	*44.7*	*43.3*	*43.3*	*41.2*
Public sector	***43.4***	*43.8*	*44.5*	*44.9*	*45.0*
North America	***80.6***	*79.6*	*79.0*	*79.0*	*77.4*
International	***9.0***	*8.9*	*8.8*	*9.2*	*8.8*
T4Q Growth – Total	**4%**	5%	6%	9%	8%
Enterprise	***12%***	*12%*	*10%*	*14%*	*12%*
Public sector	***(3%)***	*(1%)*	*2%*	*5%*	*5%*
North America	***4%***	*6%*	*6%*	*9%*	*8%*
International	***3%***	*(2%)*	*1%*	*11%*	*9%*
Sequential QoQ Growth – Total	**1%**	1%	(0%)	2%	2%
Enterprise	***3%***	*3%*	*0%*	*5%*	*4%*
Public sector	***(1%)***	*(2%)*	*(1%)*	*(0%)*	*1%*
North America	***1%***	*1%*	*(0%)*	*2%*	*3%*
International	***2%***	*0%*	*(3%)*	*4%*	*(3%)*

We believe that our market growth opportunity is most highly concentrated in the enterprise vertical (which includes corporate and healthcare customers), and therefore we have directed a substantial portion of our sales and marketing and product development investment to target this market. We believe these focused initiatives have helped drive the 12% T4Q growth we have experienced in this market.

As discussed previously under Growth Strategy, we have recently experienced pricing pressure in the public sector market vertical, specifically due to dynamics in the education market. In spite of this recent trend, we believe that recent and upcoming enhancements to our education offering, such as student device usage analytics, the bundling of managed services with our offerings, and the offering of site licensing alternatives will broaden the appeal of our solutions. As such, we believe that we have an opportunity to stabilize our sales to the education vertical. Additionally, we expect growth in other public sector markets, such as state, local and federal government, where the market sizes are significantly larger than education and where the value proposition of our solutions parallels that of the enterprise vertical.

As a result of the industry trends outlined above, we expect the enterprise vertical to represent an increasing proportion of our Commercial ACV Base over time. At December 31, 2017, the Commercial ACV Base was represented 52% by enterprise vertical customers and 48% by public sector vertical customers (further divided into 10% represented by government customers and 38% represented by education customers). During Q2-F2018, 67% of ACV from New Customers was attributable to customers from the enterprise vertical, with the remaining 33% being attributable to customers from the public sector vertical.

From a geographic perspective, the December 31, 2017 ACV Base was represented 90% by North American customers and 10% by international customers. As a result of its smaller ACV Base, we expect international results to fluctuate with a higher degree of variability.

Revenue

Total revenue in Q2-F2018 increased 3% to $23.2 million from $22.5 million in Q2-F2017. This was represented by a 5% increase in commercial recurring revenue and a 16% decrease in non-recurring professional services and other revenue. In the year to date period of F2018, total revenue increased 3% to $46.2 million from $44.9 million in F2017, with a similar 5% increase in commercial recurring revenue and 22% decrease in non-recurring professional services and other revenue. In general, we believe our future commercial recurring revenue performance will be closely aligned with the net growth in our Commercial ACV Base.

The table below provides details of our revenue, and the associated year-over-year increase (decrease), over the trailing five quarters:

(in millions)	**Q2-F2018**	Q1-F2018	Q4-F2017	Q3-F2017	Q2-F2017
Commercial Recurring Revenue	**22.1**	21.8	21.9	21.6	21.1
Professional Services and Other	**1.1**	1.2	1.3	1.5	1.4
Total Revenue	**$ 23.2**	$ 23.0	$ 23.2	$ 23.1	$ 22.5
Year-over-year increase (decrease)					
Commercial Recurring Revenue	*5%*	*5%*	*8%*	*9%*	*8%*
Professional Services and Other	*(16%)*	*(27%)*	*(29%)*	*(20%)*	*(9%)*
Total Revenue	*3%*	*2%*	*5%*	*7%*	*6%*

The table below provides a comparison of our Q2 and year-to-date revenue:

(in millions)	**Q2 F2018**	Q2 F2017	Increase (decrease)	**YTD F2018**	YTD F2017	Increase (decrease)
Revenue recognized from:						
Term licensing[1]	**$ 21.4**	$ 20.6	4%	**$ 42.5**	$ 41.0	4%
Managed services[1]	**0.7**	0.5	46%	**1.3**	0.9	51%
Commercial Recurring Revenue	**22.1**	21.1	5%	**43.8**	41.9	5%
Professional services	**0.3**	0.2	57%	**0.6**	0.6	(2%)
Other	**0.8**	1.2	(29%)	**1.8**	2.4	(27%)
Total Revenue	**$ 23.2**	$ 22.5	3%	**$ 46.2**	$ 44.9	3%

(1) Term licensing and recurring managed service revenues are included as part of our Commercial ACV Base.

Adjusted Operating Expenses[1]

(Millions of dollars)	**Q2 Fiscal 2018**	Q2 Fiscal 2017	Increase (decrease)	**YTD Fiscal 2018**	YTD Fiscal 2017	Increase (decrease)
Cost of revenue ("COR")[1]	**$ 3.6**	$ 3.5	4%	**$ 7.1**	$ 6.8	5%
Sales and marketing ("S&M")[1]	**10.1**	10.7	(6%)	**20.5**	21.7	(6%)
Research and development ("R&D")	**4.9**	4.1	19%	**10.3**	8.2	26%
General and administration ("G&A")[1]	**2.2**	2.4	(8%)	**4.6**	4.6	(1%)
Adjusted Operating Expenses[1]	**$ 20.8**	$ 20.7	1%	**$ 42.5**	$ 41.3	3%
Number of employees at December 31	**504**	420	20%	**504**	420	20%

ADJUSTMENTS:

(1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of these adjusted expenses to those in the Interim Consolidated Financial Statements.

Adjusted Operating Expenses and EBITDA as a Percentage of Revenue[1]

(percentage of Revenue)	**Q2 Fiscal 2018**	Q2 Fiscal 2017	**YTD Fiscal 2018**	YTD Fiscal 2017
Cost of revenue ("COR")[1]	**16%**	16%	**16%**	15%
Sales and marketing ("S&M")[1]	**43%**	48%	**44%**	48%
Research and development ("R&D")	**21%**	18%	**22%**	18%
General and administration ("G&A")[1]	**10%**	10%	**10%**	11%
Adjusted Operating Expenses[1]	**90%**	92%	**92%**	92%
Adjusted EBITDA[1]	**10%**	8%	**8%**	8%

ADJUSTMENTS:

(1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of Adjusted Operating Expenses and EBITDA to those in the Interim Consolidated Financial Statements.

Adjusted Operating Expenses in Q2-F2018 were $20.8 million, up 1% from $20.7 million in Q2-F2017, and were $42.5 million in the year to date period of F2018, up 3% from $41.3 million in F2017. The year over year increase in F2018 was primarily attributable to increased spending on research and development, as we have expanded our investment in our product functions over the past year in order to increase the cadence of new product feature releases and improve the scalability and extensibility of our SaaS platform. As at December 31, 2017, these expansion activities were substantially complete.

Adjusted EBITDA was 10% of revenue in Q2-F2018, up from 8% in Q2-F2017, and was 8% in the year to date period of F2018, consistent with F2017. The increase in Adjusted EBITDA in the second quarter was largely attributable to an increase in revenues, with Adjusted Operating Expenses not increasing at the same rate.

Cost of Revenue ("COR") and Gross Margin

Cost of revenue includes the costs of operating our SaaS-hosted infrastructure, customer support, professional and investigative services, as well as service guarantee costs and allocated overhead.

On an overall basis, COR was $3.7 million in Q2-F2018, down 8% from $4.0 million in Q2-F2017, and was $7.2 million in the year to date period of F2018, down 3% from $7.5 million in F2017. As a result, gross margin was 84% in Q2-F2018 compared to 82% in Q2-F2018, and was 84% in the year to date period of F2018 up from 83% in F2017. In the Q2 and year to date periods of F2017, we incurred reorganization charges of $0.4 million and $0.5 million, respectively, related to a realignment of resources within our professional services and investigations organizations.

On an adjusted basis, COR was $3.6 million in Q2-F2018, up 4% from $3.5 million in Q2-F2017. In the year to date period of F2018, adjusted cost of revenue was $7.1 million, up 5% from $6.8 million in the prior year to date period. In Q2-F2018, Adjusted COR was impacted by higher personnel related expenditures. In the year to date period of F2018, in addition to the impact of the above, we also experienced higher personnel costs related to customer experience, offset by lower costs associated with our service guarantee. Adjusted gross margin was 85% in the year to date period of F2018, consistent with 85% in F2017.

We exited Q2-F2018 with a headcount of 73 in this area, as compared to 76 at June 30, 2017, and 74 at December 31, 2016.

Sales and Marketing ("S&M")

Sales and marketing expenses consist of salaries and related expenses for sales, marketing, partner support and business development personnel, amortization of deferred commission expenses, marketing program and event expenditures, travel and entertainment expenses, and allocated overhead. We undertake a number of general marketing initiatives including: participation in tradeshows and partner events; market development programs with partners; public and industry analyst relations; webinars; and advertising expenditures. These expenditures are incurred to increase awareness with partners and customers, drive coverage with industry analysts and help to establish Absolute as a global information security leader.

On an overall basis, S&M expense decreased 9% to $10.1 million in Q2-F2018 compared to $11.1 million in Q2-F2017, and was $20.4 million in the year to date period of F2018, also down 9% from $22.4 million in F2017. In the Q2 and year to date periods of F2017, we incurred reorganization charges of $0.4 million and $0.8 million, respectively, as we optimized our go to market functions.

After excluding the impact of reorganization charges, adjusted S&M expense was $10.1 million in Q2-F2018, down 6% from $10.7 million in Q2-F2017, and was also down 6% in the year to date period of F2018, at $20.5 million compared to $21.7 million in F2017. As a percentage of revenue, adjusted S&M expenses were 43% and 44% in the Q2 and year to date periods of F2018, compared to 48% in the comparative periods of F2017.

Our Q2 and year-to-date F2018 S&M expense was impacted by lower levels of partner and direct marketing program spending and lower travel and entertainment expenditures as compared to F2017. Personnel-related expenses, amortized commission expense, and allocated overheads were moderately lower compared to F2017. We exited Q2-F2018 with a headcount of 147 in sales and marketing, as compared to 154 at June 30, 2017, and 156 at December 31, 2016.

Research and Development ("R&D")

Research and development expenses consist primarily of salaries and related expenses for our research and development staff, contractor and outsourcing costs, and allocated overhead. These expenses are partially offset by Canadian government Scientific Research and Experimental Development investment tax credits ("SRED ITCs").

R&D expense was $4.9 million in Q2-F2018, consistent with $4.9 million in Q2-F2017, but increased 12% in the year to date period of F2018 to $10.3 million from $9.3 million in F2017. Total SRED ITCs recorded were $0.5 million in Q2-F2018, up from $0.4 million in Q2-F2017, and were $1.0 million for the year-to-date period of F2018 compared to $0.8 million in the prior year-to-date period.

In the Q2 and the year-to-date periods of F2017, we incurred reorganization charges of $0.8 million and $1.1 million, respectively, related to a post-retirement allowance and a reorganization of our R&D personnel. Excluding these charges, adjusted R&D expense was $4.9 million in Q2-F2018, up 19% from $4.1 million in Q2-F2017, and was up 26% in the year-to-date period of F2018 at $10.3 million, compared to $8.2 million in F2017. When measured as a percentage of revenues, adjusted R&D expenses were 21% in Q2-F2018 compared to 18% in Q2-F2017, and 22% in the year to date period of F2018 compared to 18% in the prior year.

The increase in our F2018 adjusted R&D expense reflects increased investment in our product functions, offset by the impact of the SRED ITCs as noted above. The increased investment included increased personnel in the areas of software development, product management and our executive leadership. We exited Q2-F2018 with a headcount of 227 in research and development, compared to 235 at June 30, 2017, and 137 at December 31, 2016.

General and Administration ("G&A")

G&A expenses consist of salaries and related expenses for finance and accounting, human resources and administration, bad debt provisions, professional fees other corporate expenses and allocated overhead.

G&A expenses decreased 13% to $3.0 million in Q2-F2018 compared to $3.5 million in Q2-F2017. In the year-to-date period, G&A expenses decreased 5% to $6.1 million in F2018 as compared to $6.4 million in the prior year period. Adjusted G&A expenses were 8% lower in Q2-F2018, at $2.2 million compared to $2.4 million in Q2-F2017, and decreased 1% to $4.6 million in the year-to-date period compared to $4.6 million in the prior year period. When measured as a percentage of revenue, adjusted G&A expenses were 10% in the year to date periods of both F2018 and F2017.

The decrease in adjusted G&A expenses in the Q2 and year to date periods of F2018 was primarily the result of lower levels of professional fees resulting from general corporate and audit matters. Personnel expenses were slightly higher than in F2017, offset by slightly slower executive bonus accruals. We exited Q2-F2018 with a headcount of 57 in general and administration, compared to 52 at June 30, 2017 and 53 at December 31, 2016.

Operating Income and Adjusted EBITDA

We recorded IFRS operating income of $1.2 million in Q2-F2018, compared to an operating loss of $2.1 million in Q2-F2017. In the year-to-date period of F2018, we recorded operating income of $0.9 million, compared to an operating loss of $2.9 million in F2017.

Adjusted EBITDA increased 38% to $2.4 million in Q2-F2018 from $1.7 million in Q2-F2017, and increased 2% in the year-to-date period of F2018 to $3.7 million from $3.6 million in the comparable F2017 period. As a percentage of revenue, Adjusted EBITDA was 10% in Q2-F2018, up from 8% in Q2-F2017, and was 8% in the year-to-date periods of F2018 and F2017. The year-to-date results reflect the impact of an increase in revenue of $1.3 million, offset by an increase of $1.2 million in Adjusted Operating Expenses.

Other Income and Expenses

Absolute has historically earned interest income on its cash and investment resources beyond immediate operating requirements. We recorded interest income of $14,000 in Q2-F2018 compared to $6,000 in Q2-F2017, and $20,000 in the year-to-date period of F2018 compared to $48,000 in the comparable F2017 period. The decrease in investment income reflects lower overall cash and investment balances as well as a shift in our portfolio allocation from investment to cash balances.

Other income and expenses also include foreign exchange gains and losses incurred primarily on the translation of Canadian dollar and British Pound cash, investment and liability balances.

In Q2-F2018, we experienced a foreign exchange loss of $24,000, as compared to a loss of $50,000 in the comparative period. In the year-to-date period of F2018, we recorded a foreign exchange loss of $110,000, compared to $29,000 in the comparable F2017 period. In F2018 and F2017, the losses were the result of intra-quarter fluctuations between the U.S. and Canadian dollar.

Income Taxes

Our overall effective tax rate is significantly impacted by the source of income or losses amongst our subsidiaries as a result of varying tax rates in different jurisdictions. In addition, our overall effective tax rate is impacted by share-based compensation, which is generally not deductible for income tax purposes. We are also subject to foreign exchange fluctuations on deferred tax balances originating in foreign jurisdictions, the impact of non-recognition of deferred tax assets in some jurisdictions, and the impact of changes in statutory tax rates.

In Q2-F2018, we recorded a current tax expense of $1.6 million and a deferred tax recovery of $80,000, as compared to a current tax recovery of $700,000 and deferred tax expense of $400,000 in Q2-F2017. In the year to date period of F2018, we recorded a current tax expense of $1.8 million and a deferred tax recovery of $600,000, as compared to a current tax recovery of $700,000 and a deferred tax expense of $500,000 in F2017.

The difference between our effective tax rate in F2018 of 161.9% (F2017 – 6.7%) and our statutory tax rate of 26.50% (F2017 – 26.00%) is primarily due to the interplay of the factors mentioned above. In the Q2 and year-to-date periods of F2018, our effective tax rate was significantly impacted by a $1.1 million deferred tax expense related to a revaluation of our U.S. based deferred tax assets to reflect the recently enacted decrease in the U.S. federal corporate tax rate. In F2017, our effective tax rate was impacted by the amount of non-deductible expenses in relation to our loss before tax, in addition to the amount of tax losses in foreign jurisdictions that we have not benefitted.

In F2018 and F2017, our current tax position is net of ITCs to be claimed, which are presented as a reduction of research and development expenses.

The assessment of our U.S. tax position is based on our initial analysis of the *Tax Cuts and Jobs Act* (the "Act"). Given the significant complexity of the Act, anticipated guidance from the Internal Revenue Service about implementing the Act, and the potential for additional guidance from the International Accounting Standards Board related to the Act, these estimates are subject to adjustment in the near term.

Net Loss

The Company recorded a net loss in Q2-F2018 of $349,000 compared to $1.8 million in Q2-F2017. In the year-to-date period of F2018, we recorded a net loss of $494,000, compared to $2.6 million in F2017. The current year net loss reflects the impact of IFRS operating income and income tax expense, as described above.

Cash from Operating Activities

Our quarterly cash from operating activities is significantly impacted by the timing of our Billings, with cash collections in one quarter having a high correlation to Billings in the previous quarter.

Our Billings in a period represent amounts related to expiring contract renewals, existing customer expansions and product upgrades, and new customer purchases. As our average prepaid contract term has historically averaged approximately 36 months, our Billings in a period are heavily influenced by the expiration of contracts sold in the same period several years prior. As a result, a comparison of current period Billings to prior year Billings may be misleading, as a year-over-year increase/decrease in Billings may infer an expansion/contraction of our Commercial ACV Base when no such expansion/contraction exists. For this reason, we believe that the change in the Commercial ACV Base is a more accurate measure of our revenue generating activities.

The table below provides details of our Billings over the trailing six quarters:

(in millions)	**Q2-F2018**	Q1-F2018	Q4-F2017	Q3-F2017	Q2-F2017	Q1-F2017
Billings	**$ 23.0**	$ 21.2	$ 29.4	$ 21.6	$ 21.0	$ 19.7

Our average prepaid contract term in Q2-F2018 was 34 months.

In Q2-F2018, we generated cash from operating activities of $3.2 million, up from a use of cash of $1.2 million in Q2-F2017. In the year-to-date period of F2018, we generated cash from operating activities of $5.3 million, up from $693,000 in the comparable F2017 period. Our Q2-F2017 cash from operations was negatively impacted by $0.8 million in reorganization charges, and our year to date F2017 cash from operations was further impacted by $3.2 million of income taxes payable and an additional $0.9 million of reorganization charges. After adjusting for the impact of these items, adjusted cash used in operations was $0.4 million in Q2-F2017, and cash generated from operations was $5.6 million in the year-to-date period of F2017, which is consistent with F2018.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At December 31, 2017, our cash, cash equivalents and short-term investments were $33.4 million, compared to $32.9 million at June 30, 2017. The Company's cash and investment position was impacted in F2018 by cash from operations, an amount of $1.3 million in capital expenditures, and an outlay of $5.0 million for dividends. These amounts were offset by the receipt of $1.6 million on stock option exercises.

Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

Accounts receivable

Accounts receivable balances decreased to $14.2 million at December 31, 2017 (62% of Q2-F2018 Billings) from $19.5 million at June 30, 2017 (66% of Q4-F2017 Billings). The decrease is primarily due to lower Billings volumes in Q2-F2018 as compared to Q4-F2017, as well as improved collection cycles.

At December 31, 2017, 2% of the Company's accounts receivable balance was over 90 days past due, consistent with 2% at June 30, 2017. At December 31, 2017, accounts receivable included three OEM and distributor partners that represented more than 10% of receivables, at 34%, 23%, and 22%, respectively. At June 30, 2016, these three partners comprised 21%, 12%, and 33%, respectively, of our total accounts receivable, with a fourth partner representing 14%.

Accrued Warranty

Accrued warranty is related to a service guarantee associated with certain of our products. The accrued warranty was $0.4 million at December 31, 2017, down from $0.6 million at June 30, 2017. Each period, management evaluates our guarantee payment experience and considers whether changes are required to the estimated warranty provision. The decrease in F2018 reflects decreased investigation file volume in Q2-F2018 as compared to Q4-F2017.

Deferred revenue

Deferred revenue was $136.3 million at December 31, 2017, compared to $138.4 million at June 30, 2017. Deferred revenue is comprised of the unamortized portion of deferred revenue from our Billings, which is amortized ratably to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	F2018	F2019	F2020	F2021	F2022	F2023	Total
Revenue to be recognized	$41.3	$52.8	$29.1	$10.2	$2.7	$0.2	$136.3

Deferred income tax assets and current taxes receivable

At December 31, 2017, we had current taxes receivable of $251,000 and current taxes payable of $323,000, compared to current taxes receivable of $83,000 at June 30, 2017. In F2018 and F2017, our current tax position is net of ITCs to be claimed, which are presented as a reduction of research and development expenses.

At December 31, 2017, we had total deferred income tax assets of $22.4 million, compared to $22.3 million at June 30, 2017. These deferred tax assets are primarily attributable to the future benefit of deferred revenue balances, operating tax loss carry forwards in our U.S. operations, and to amounts relating to SRED ITCs in our Canadian operations. Management believes these deferred income tax assets are more likely than not to be realized.

The Company operates in various tax jurisdictions and, accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and future income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise.

In assessing the recognition of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. To the extent that management believes that the realization of the deferred income tax assets does not meet the more likely than not realization criteria, deferred tax assets are not recognized.

The assessment of our U.S. tax position is based on our initial analysis of the Act. Given the significant complexity of the Act, anticipated guidance from the Internal Revenue Service about implementing the Act, and the potential for additional guidance from the International Accounting Standards Board related to the Act, these estimates are subject to adjustment in the near term.

Outlook

The Company is updating its outlook for F2018:

- The Company is adjusting its revenue forecast to $93.0 million to $95.0 million from $94.0 million to $96.0 million, reflecting reduced expectations of revenue from non-recurring services and non-core businesses.
- The Company is adjusting its guidance for Adjusted EBITDA and cash from operating activities to reflect the impact of a stronger Canadian dollar on the Company's cost base. Adjusted EBITDA is expected to be in the range of 8% to 10% of revenue compared to previous guidance of 9% to 11% of revenue. Cash from operating activities is expected to be in the range of 8% to 12% of revenue compared to previous guidance of 9% to 12% of revenue.
- Expected capital expenditures remain unchanged at $3.0 million to $3.5 million.

Shareholders' Deficiency and Outstanding Share Data

At December 31, 2017, Absolute had a shareholders' deficiency of $56.6 million. In evaluating shareholders' deficiency, management believes it is important to consider the $136.3 million of deferred revenue carried on the statement of financial position. Deferred revenue represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which we expect to generate high margins when recognized in income, as much of the associated contract acquisition costs are already included in the operating deficit. In addition, any common shares repurchased as part of our historical Substantial Issuer Bid or Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit. This amounted to $0.9 million in F2017 and $nil in the year to date period of F2018.

The Company's common shares trade on the TSX (TSX: ABT) and at December 31, 2017 the Company had 40,057,779 (February 13, 2018 – 40,109,640) fully issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at December 31, 2017:

- Stock Option Plan: 2,873,980 (February 13, 2018 – 2,416,249) stock options granted and outstanding. The options have a weighted average exercise price of CAD$7.42 per share and a weighted average term to expiry of 2.2 years. There have been 474,002 options granted in F2018.
- Phantom Share Unit ("PhSU") Plan: 31,699 (February 13, 2018 – 31,699) PhSUs granted and outstanding. The PhSUs have a weighted average term to expiry of 1.0 years. There have been 2,554 PhSUs granted in F2018.
- Performance and Restricted Share Unit ("PRSU") Plan: 173,146 (February 13, 2018 – 58,913) Performance Share Units ("PSU"s) granted and outstanding. The PSUs have a weighted average term to expiry of 5.8 years. There have been 86,265 PSUs granted in F2018. The PSUs outstanding include 38,587 units that were issued pursuant to a market-based PRSU Plan, and have been acquired under the terms of permissible share buyback mechanisms.
- PRSU Plan: 1,024,657 (February 13, 2018 – 951,787) Restricted Share Units ("RSU"s) granted and outstanding. The RSUs have a weighted average term to expiry of 2.1 years. There have been 514,137 RSUs granted in F2018. The RSUs outstanding include 50,958 units that were issued pursuant to a market-based PRSU Plan, and have been acquired under the terms of permissible share buyback mechanisms.
- Share Purchase Plan: Under the Purchase Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million shares have been reserved for grant under the Plan, of which 1,765,786 have been issued as at December 31, 2017 (February 13, 2018 – 1,817,647).

On September 6, 2017, the Company received approval from the TSX to commence a Normal Course Issuer Bid on September 11, 2017 that enables the Company to purchase and cancel up to 2,538,721 of its common shares. The Bid allows for the purchase of up to 17,635 common shares on a daily basis until September 10, 2018, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to September 6, 2017, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, no common shares have been repurchased in F2018.

Off Balance Sheet Arrangements

We have not entered into any off balance sheet arrangements other than standard office lease agreements.

Corporate Developments

On January 15, 2018, we announced that Geoff Haydon, the former Chief Executive Officer of the Company, tendered his resignation from the Company and its Board of Directors. In addition, we announced the appointment of Steve Munford as Interim Chief Executive Officer.

Our board of directors has initiated a process to recruit a permanent Chief Executive Officer for the Company and will be engaging an executive search firm to assist in its search.

Subsequent Events

Employee share purchase plan

On January 18, 2018, 51,861 common shares were issued pursuant to the Employee Share Purchase Plan.

Quarterly dividend

On January 19, 2018, the Company declared a quarterly dividend of CAD$0.08 per share on its common shares, payable in cash on February 23, 2018 to shareholders of record at the close of business on February 2, 2018.

Quarterly Operating Data

(in millions except per share data)	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16
Revenue	23.2	23.0	23.2	23.1	22.5	22.5	22.0	21.7
Billings[(1)(2)]	23.0	21.2	29.4	21.6	21.0	19.7	30.1	20.1
Adjusted EBITDA[(2)]	2.4	1.3	2.0	2.3	1.7	1.9	1.9	2.8
Net (loss) income	(0.3)	(0.1)	(2.1)	(0.2)	(1.8)	(0.8)	(1.2)	1.2
Basic and diluted (loss) income per share	(0.01)	(0.00)	(0.05)	(0.01)	(0.05)	(0.02)	(0.03)	0.03
Cash from (used in) Operating Activities	3.2	2.1	0.7	(1.0)	(1.2)	1.9	(1.6)	0.1
Dividends paid	2.5	2.5	2.3	2.4	2.3	2.4	2.4	2.2
Repurchases of common shares	0.0	0.0	0.0	0.7	0.6	0.0	0.4	0.6
Number of common shares outstanding	40.1	39.9	39.7	39.6	39.0	39.0	38.9	38.8

(1)Please refer to the "Subscription Billings" and "Seasonality" sections of this MD&A.

(2)Please refer to the "Non-IFRS Measures" section of this MD&A.

Critical Accounting Policies and Estimates

Management considers the Company's accounting for Billings, revenue, intangible assets (relating to deferred contract costs) and deferred taxes to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Billings represent invoiced sales for subscriptions to Absolute's services and software that are included in deferred revenue and amortized to revenue ratably over the contract term, commencing on the start date of services. A majority of Absolute's Billings are transacted via OEM and reseller partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders come in various forms from reseller partners. Absolute ships the software if applicable, commences the subscription term and invoices the reseller and reports this as a Billing for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns and/or reversals is kept to a minimum. These Billings are recorded as a receivable and deferred revenue item at the time of sale (and not included in revenue at the time) and no estimates for returns, bad debts and reversals are made until such time as subsequent evidence suggests such an estimate is required.

We sell software subscriptions and related professional services as described in the Company Overview section of this MD&A. Revenue represents the fair value of consideration received or receivable from clients for services and products provided by the Company, net of discounts. Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the services and products have been delivered, and collectability is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue. The Company's principal source of revenue results from Billings of the above services, with subscription terms ranging from one to five years. The full value of each Billing is invoiced and receivable upon execution of the contract, delivery of the products and initiation of the services. Typically, revenue arrangements are comprised of multiple elements, as they may include software licensing, asset monitoring, theft recovery, and maintenance and support services over the term. These elements are typically not separable for accounting purposes, and as a result, revenue from Billings is recognized ratably over the subscription term.

All Billings are recorded at the net amount received by Absolute from the reseller, provided that all significant contractual obligations have been satisfied and collection is reasonably assured. For direct sales, billings are recorded at the amount received from the end customer.

Deferred contract costs represent expenses that are generated or incurred at the start of each service subscription (or Billing) and are primarily comprised of prepaid employee sales commissions. These items are capitalized on the statement of financial position as a portion of intangible assets and are amortized into sales and marketing expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Billing to which the expense relates. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this deferred asset.

The Company has recognized deferred tax assets on its Statement of Financial Position. Each reporting period, management assesses the likelihood of realizing deferred tax assets. Where management considers that it is more likely than not that some portion or all of the future tax assets will be realized, the estimated realizable value of the future tax asset is recognized on the statement of financial position. The net income or loss after income taxes can vary widely in periods where tax assets are recognized and such variances could result from a material write-down or increase in the estimated value of the Company's deferred tax assets.

Future Accounting Standards

IFRS 15 – *"Revenue from Contracts with Customers"* ("IFRS 15")

In May 2014, the IASB issued IFRS 15 which supersedes IAS 18 – *"Revenue"*, IAS 11 – *"Construction Contracts"* and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. Various clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company has established an implementation plan and intends to adopt IFRS 15 in its financial statements for the annual period beginning on July 1, 2018.

Based on a preliminary analysis, we anticipate that our customer contracts currently accounted for ratably over the term of the subscription will meet the requirements for revenue recognition over time under IFRS 15, and as a result, in general, we will continue to recognize subscription term revenues ratably over their term. We are executing our implementation plan and are in the process of determining whether any other adjustments may be required relating to the application of other aspects of IFRS 15. We will provide further updates as we continue to execute our implementation plan, and anticipate our analysis will be complete during the fourth quarter of fiscal 2018.

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

Disclosure controls and procedures

The Company has disclosure controls and procedures in place that are designed to provide reasonable assurance that material information relating to Absolute is disclosed on a timely basis. Management has reviewed the Company's disclosure controls and concluded that they were effective during the reporting period.

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of Management's Discussion and Analysis and the consolidated financial statements. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's Discussion and Analysis and the consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

The Company's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO expect to certify Absolute's quarterly filings with the Canadian securities regulatory authorities.

Risks and Uncertainties

The Company is selling and developing products and services for new and emerging markets and, as a result, faces a number of risks, many of which are outlined below. Our discussion in this section is qualified in its entirety by the cautions regarding certain forward-looking statements at the beginning of this MD&A.

Ability to Predict Rate of Growth and Profitability – Absolute focuses on Revenue, Adjusted EBITDA, change in Commercial ACV Base and Cash from Operating Activities as our key performance metrics. Management believes that IFRS profitability will increase over time, however, due to the evolving SaaS business model and the unpredictability of our emerging and competitive category of information security products, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its revenue growth and profitability. Absolute bases its current and future expense levels and its investment plans on estimates of future revenue growth. Absolute may not be able to adjust its spending quickly enough if the rate of new or renewed subscriptions falls short of its expectations. In addition, the intense competition we face in the sales of our products and services and general economic and business conditions (including foreign exchange rates) can put pressure on us to change our prices. If our competitors offer deep discounts on certain products or services or develop products that the marketplace considers more valuable, we may need to lower our prices or offer other favorable terms in order to compete successfully. Any such changes may reduce margins and could adversely affect operating results. Also, Absolute's operating results may fluctuate significantly on a quarterly basis. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

Operating Systems – Absolute has designed the majority of its services to operate on certain generations of Microsoft Windows and other operating systems. The development by Microsoft of new versions of Windows and/or upgrades or updates to Windows or other operating systems and/or the market adoption of these or other operating systems developed by other vendors may have an adverse effect on Absolute's business if the Company is not able to adapt its technology to be compatible with these new operating systems. In addition, end users may want to deploy our products and services in computing environments with operating systems, software and/or hardware different than those in which we test our products and services before release or where our products are not compatible. The costs incurred in analyzing, correcting or eliminating any material defects or errors in our software may be substantial. Furthermore, we may not be able to correct any defects or errors or promptly address any vulnerabilities or compatibility issues with our products which could have a material adverse effect on Absolute's business, operating results and financial condition.

Dependence on Distribution Channels – Absolute generates a substantial portion of its revenue through OEM channels and distribution partners. Absolute's sales strategy is heavily dependent upon its ability to continue to maintain its embedded BIOS and firmware positions with these partners and grow its reseller channels. Certain of our distribution and reseller arrangements are non-exclusive, and our products may compete with other products marketed by such OEM channel or distribution partner (including our Persistence technology). If we fail to manage our sales and distribution channels effectively or if our partners choose to not embed our Persistence technology or favour competing products, Absolute will have to change its sales strategy and may not be able to grow at the rates we anticipate, which could have a material adverse effect on Absolute's business, operating results and financial condition.

Our OEM channel and distribution partners may also cease marketing our products and services with limited or no notice and with little or no penalty. New channel or distribution partners require extensive training and may take several months or more to achieve productivity. The loss of a substantial number of

our OEM channel and distribution partners, our possible inability to replace them, or the failure to recruit additional channel partners could materially and adversely affect our results of operations. Our ability to achieve revenue growth in the future will depend in part on our success in maintaining successful relationships with our OEM channel and distribution partners, and training our channel partners to independently sell our products and services. If we are unable to maintain our relationships with these channel partners or otherwise develop and expand our indirect sales channel, or if our channel partners fail to perform, our business, financial position and results of operations could be adversely affected.

Breach of Security Measures and Unauthorized Access – The Company's service involves the storage, processing and transmission of certain customer information. Internal or external security incidents or breaches could expose the Company to a risk of loss of this information, litigation and possible liability. Absolute's technology and security measures have been designed and implemented in order to mitigate risks of this nature. However, if our security measures are interfered with or breached as a result of third-party action, employee error, malfeasance or otherwise, during the transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to our data or our customers' data, our reputation could be damaged, our business may suffer and Absolute could incur significant liability. While we seek to detect and investigate all unauthorized attempts and attacks against our network and products, and to prevent their recurrence where practicable through changes to our internal processes and tools and/or changes or patches to our products, we remain potentially vulnerable to additional known or unknown threats. The Company may be unable to anticipate new attack techniques or may not have time to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and Absolute could lose sales and customers. In addition, our customers may authorize third-party service providers to access their customer data. Because the control of these third-party service providers is undertaken by our customers, Absolute cannot ensure the complete integrity or security of such transmissions or processing.

Data Security and Hacking - Increasingly, companies are consistently subject to a wide variety of attacks on their networks. In addition to traditional computer "hackers," malicious code (such as viruses and worms), employee theft or misuse, denial of service attacks, ransomware, malware and sophisticated nation-state and nation-state supported actors now engage in incidents, interferences, intrusions and attacks (including advanced persistent threat intrusions), and add to the risks to our internal networks and the information they store, manage and process. Despite significant efforts to create security barriers to such threats, it is virtually impossible for Absolute to entirely mitigate these risks. Any such security incident or breach could compromise our networks, creating system disruptions or slowdowns and exploiting security vulnerabilities of our products, and the information stored on our networks could be accessed, publicly disclosed, lost, or stolen, which could subject us to liability and cause us financial harm. These breaches, or any perceived breach, may also result in damage to our reputation, negative publicity, loss of partners, end-customers and sales, increased costs to remedy any problem, and costly litigation and may result in the Company's business, operating results and financial condition being materially adversely affected.

Foreign Exchange – The Company's reporting and functional currency is the United States dollar. However, a significant portion of operating expenses is denominated in Canadian dollars. As a result, the Company is exposed to fluctuations in the Canadian dollar exchange rate for which it has not entered into foreign exchange hedges. Currency markets continued to fluctuate in the quarter due to potential interest rate increases in the U.S. and ongoing geopolitical developments. A significant appreciation of the Canadian dollar relative to the U.S. dollar could materially impact the profitability of the Company. In addition, the Company will be exposed to greater foreign exchange risk from other countries as our operations, and our operating expenses, expand in foreign jurisdictions.

Emerging Products and Technology – The market for Absolute's products is still emerging and continued growth and demand for, and acceptance of, these products remains uncertain. In addition, other emerging technology and products may impact the viability of the market for Absolute's products. Absolute's continued success will depend upon its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing customer requirements and achieve market acceptance. There can be no assurance that Absolute will be able to respond effectively to changes in technology or customer demands. Moreover, there can be no assurance that Absolute's competitors or current partners (including OEMs) will not develop competitive products or that any such products will not have an adverse effect upon Absolute's business, financial condition or results of operations.

Absolute's products and technologies are not available for all existing and emerging mobile computers and other mobile devices that are or will be available in the marketplace, and some features of Absolute's products are offered for only some devices. For example, Absolute Persistence technology is not currently embedded in Apple devices or on Google Chromebooks. Absolute targets its product development efforts towards those devices and operating systems that Absolute believes have the best strategic value to the Company. However, Absolute may not be successful in identifying future trends in the marketplace for these devices on a timely basis, or in creating or adapting Absolute's products and features for enough of the devices that are available. If the present decline in PC and tablet sales continues, or if Absolute's customers replace their existing mobile computers and mobile devices with other devices for which Absolute has not developed products, our revenue may decline and our results from operations may be adversely impacted.

Economic and Geo-Political Uncertainty - Many of Absolute's customers are being affected by economic and geo-political conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and the demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of stagnant economic conditions, political deadlock, global nationalism and/or protectionism, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally.

More specifically, in recent years, uncertain global and regional economic conditions have affected international trade and caused a rise in protectionist actions around the world. This has affected the export of Canadian products and resulted in increased tariffs and duties, among other things. These trends are affecting many global manufacturing and service sectors, and the software and hardware industries, as a whole, are not immune. These changes may negatively affect the sales of the Company's products and services, and therefore impact its ability to meet its targets for its Commercial ACV Base, Revenue, Adjusted EBITDA, and Cash from Operating Activities, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

Competition – It is possible that new competitors will enter the marketplace. Several potential competitors (including OEMs) are marketing or have announced the development of products and related patents in direct competition with Absolute. In addition, as Absolute develops new products and services, we may begin competing against companies with whom it did not previously compete. Such competitors may be

able to develop and expand their products and services more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, devote greater resources to the marketing and sale of their services and products than Absolute and place downward pressure on the pricing of Absolute's products and services. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations. In addition, competitors are continuing to surface as security and management applications for mobile devices are introduced to market. Industry consolidation also may affect prices or demand for our products.

Research and Development - We intend to continue to accelerate our investment in research and development activities as we focus on organic growth through internal innovation. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. We recognize the costs associated with these research and development investments earlier than the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we spend significant resources on research and development and are unable to generate an adequate return on our investment, our business, financial condition and results of operations may be materially and adversely affected.

Intellectual Property Licensing and/or Enforcement – Absolute's revenue, cost of sales and expenses may suffer if we cannot continue to license or enforce our intellectual property rights, or if third parties assert that Absolute violates their intellectual property rights. The Company relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in its Absolute and Persistence technology platform. However, the industry in which the Company competes may include new or existing entrants that own, or claim to own, intellectual property and the Company has received, and may receive in the future, assertions and claims from third parties that the Company's products infringe on their patents or other intellectual property rights (see "Patent Portfolio"). Litigation has been and will likely continue to be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company's proprietary rights. Any of the Company's direct or indirect intellectual property rights could be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit Absolute to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly or delayed product redesign efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions Absolute may be unable to protect its proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect its competitive position. Third parties also may claim that Absolute or customers or partners indemnified by Absolute are infringing upon their intellectual property rights. In recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from established companies. Even if management believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from the business. Claims of intellectual property infringement also might require Absolute to redesign affected products, enter into costly settlement or license agreements (if such licenses can be obtained on commercially reasonable terms, or at all) or pay costly damage awards, or face a temporary or permanent injunction prohibiting the marketing or selling certain of our products, which could result in the Company's business, operating results and financial condition being materially adversely affected.

Privacy Laws – Absolute's customers use our service to transmit, receive and store certain identifying information regarding their computing devices in various jurisdictions, including, in some instances, location information. Our Absolute products and monitoring system are developed to ensure that forensic components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented and used by Absolute's trained and authorized experts in the case of emergency or with our customer's explicit instructions. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Location information may be obtained as part of normal use, and we instruct and rely on our customers to obtain the required notices and consents for such geolocation tracking. If a customer fails to give the required notice or obtain the consent required by law, we may not be aware of the breach and could be in violation of applicable privacy laws. Federal, provincial, state and certain foreign governmental bodies and agencies are experiencing heightened sensitivity to privacy issues and have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. In particular, a new European Union ("EU") data protection law, the General Data Protection Regulation, which will become effective in May 2018, is wide-ranging in scope. In order to meet the new EU requirements, we may have to invest resources necessary to implement certain policy changes across our business units, products and services relating to how we collect and use personal data relating to customers, employees and vendors. Failure to comply may lead to sizeable fines. EU data protection regulators are expected to publish guidance for compliance with the new law which may further impact our information processing activities. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries or jurisdictions.

Additional Patent Applications – The Company's commercial success depends upon its ability to develop new or improved technologies and products and to successfully obtain patent or other proprietary or statutory protection for these technologies and products in Canada, the United States and other countries. The Company seeks to patent concepts, components, protocols and other inventions that are considered to have commercial value or that will likely yield a technological advantage. The Company owns rights to patented and patent pending technologies in the United States, Canada and other countries. However, the Company may not be able to develop new technology that is patentable, new patents may not be issued in connection with the Company's pending applications, allowed claims may not be sufficient to protect the Company's new technology, and patents may not be obtained by the Company in every jurisdiction where the Company's products are sold. Furthermore, any patents issued could be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage. New entrants to the field may have been issued patents, and may have filed patent applications or may obtain additional patents and proprietary rights, for technologies similar to those that the Company has made or may make in the future. Since patent applications filed before November 29, 2000 in the United States are maintained in secrecy until issued as patents, and since publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be absolutely certain that it was the first to develop the technology covered by its pending patent applications or that it was the first to file patent applications for the technology. In addition, the disclosure in the Company's new patent applications, particularly in respect of the utility of its claimed inventions, may not be sufficient to meet the statutory requirements for patentability in all cases. As a result, there can be no assurance that the Company's new patent applications will result in enforceable patents, nor

can the breadth of allowed claims in the Company's patents, and their enforceability, be predicted. Even if the Company's patents are held to be enforceable, others may be able to design around these patents or develop products similar to the Company's products that are not within the scope of these patents.

Interruptions or Delays in Service From Our Third-Party Hosting Facilities – Absolute currently serves its customers from facilities that include third-party hosting facilities located on the west coast of both Canada and the United States. Damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable. In addition, acts of terrorism and other geo-political unrest could cause disruptions in our business or the business of our partners, customers or the economy as a whole.

As part of our current disaster recovery arrangements, redundant hardware is deployed where possible in all production customer environments. Production data is backed up onto encrypted media and taken off-site. The recovery procedures and encryption keys are held remotely by Absolute employees, so that the systems can be restored in the event of a site-wide disaster. Other than contractual assurances and agreed-to controls, Absolute does not control the operation of any of these facilities and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in the delivery of our products and our services. Even with the disaster recovery arrangements, our service could be interrupted.

Product Errors and Third-Party Mischief – The software technology enabling Absolute's software services is complex and, despite testing prior to their release, the related application software may contain errors or defects, especially when first introduced or when new versions are released. Any errors that are discovered after commercial release could result in loss of revenues or delay in market acceptance, diversion of development resources, damage to Absolute's reputation, increased service and warranty costs, liability claims and our end-customers' unwillingness to buy products from us. In addition, it is possible that the Company's product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could detrimentally affect the persistence of the Company's technology, which could have a material adverse effect on its business.

Management of Growth – At times in prior fiscal years, Absolute has experienced rapid sales growth and has been focused on continuing this growth trend. This has resulted, at times, in increasing headcount and operational costs to generate and support this growing customer base, which has placed, and will continue to place, to the extent that Absolute is able to sustain such growth, a significant strain on Absolute's management, administrative, operational and financial infrastructure. Absolute anticipates that further growth will be required to address increases in the customer base, further development of the service, as well as expansion into new geographic areas. Further growth will require Absolute to continue to hire, train and manage new employees as needed. If new hires perform poorly, or if Absolute is unsuccessful in hiring, training, managing and integrating these new employees, or if Absolute is not successful in retaining existing employees, our business may be harmed. In addition, we may continue to expand our sales teams in an attempt to increase sales growth. Such growth may not match or exceed the increase in operating costs associated with hiring, training, managing and integrating of such employees.

Volatility in our Share Price – The trading price of our common shares has in the past been subject to wide fluctuations and may also be subject to fluctuation in the future. This may make it more difficult for you to resell your common shares when you want at prices that you find attractive. Increases in our common share price may also increase our compensation expense pursuant to our existing director, officer and employee compensation arrangements. Fluctuations in our common share price may be caused by events unrelated to our operating performance and beyond our control. Factors that may contribute to fluctuations include, but are not limited to:

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;
- Announcements of technological innovations or acquisitions by us or by our competitors;
- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions;
- Foreign exchange rates; and
- Other risk factors as set out in this MD&A.

If the market price of our common shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

Reliance on Key Personnel – Absolute's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that Absolute can retain these personnel and continue to recruit required talent quickly enough and with the skills required to enable Absolute to execute on its business plans. Effective and thorough succession planning is also important to our long-term success. Failure to ensure effective transfer of knowledge and smooth transitions involving key employees could hinder our strategic planning and execution. The loss of any key employee could result in significant disruptions to our operations, including adversely affecting the timeliness of product releases, the successful implementation and completion of company initiatives and our results of operations.

Competition for people with the specific skills that we require is significant in the industry in which we operate and in the Vancouver, B.C., Austin, Texas and Ho Chi Minh City, Vietnam areas where we have a substantial presence and require highly skilled personnel and, as a result, we may face difficulties in attracting, retaining and motivating employees, including a permanent Chief Executive Officer. In addition, periodic changes to the organizational structure, geographic focus and concentration and compensation plans for our sales organization may be disruptive and may impact our sales cycle or alter the average cost of sales. The inability to obtain key employees (including a permanent Chief Executive Officer) or the loss of the services of Absolute's key employees and related severance or termination payments could have a material adverse effect on Absolute's business, operating results and financial condition.

Efforts to Sell to Larger Enterprise Customers – As Absolute targets more sales efforts at larger enterprise customers, the Company could face greater costs, less favourable terms and conditions, longer sales cycles, less predictability in completing some sales and greater fluctuation in sales and cash flow in quarters where these large deals conclude. In this market segment, the customer's decision to use Absolute's service or products may be an enterprise-wide decision and, if so, these types of sales may require Absolute to provide increased product discounts, additional global support and professional services, increased service level availability, greater levels of education regarding the use and benefits of the service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. As a result of these factors, these sales opportunities may require Absolute to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

Foreign Operations – The Company intends to continue to pursue international market growth opportunities which could result in international sales accounting for an increasing portion of the Company's consolidated revenues. The Company intends to commit increased resources over time to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the United States, Vietnam, and the United Kingdom. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; foreign governmental regulations (especially in countries with communist ruling parties); and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company's consolidated revenues, the presence of such risks could have a material adverse effect on the Company's business, operating results and financial condition.

Development of Brand – Absolute believes that developing and maintaining awareness of its proprietary and licensed brands in a cost-effective manner is critical to achieving widespread acceptance of its existing and future services and is an important element in attracting new customers. Furthermore, Absolute believes that the importance of brand recognition will increase if competition in our market develops or intensifies. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable secure and useful services at competitive prices. If Absolute fails to successfully promote and maintain its brands, or incurs substantial expenses in an unsuccessful attempt to promote and maintain its brands, Absolute may fail to attract enough new customers or retain existing customers to the extent necessary to realize a sufficient return on brand-building efforts.

Fluctuation of Quarterly Results and Failure to Meet the Expectations of Analysts or Investors – Absolute's quarterly operating results are likely to fluctuate, and if Absolute fails to meet or exceed the expectations of securities analysts or investors, the trading price of its common stock could decline. Moreover, the stock price may be based on expectations of Absolute's future performance that may be unrealistic or that may not be met. Absolute believes that quarter-to-quarter comparisons of its results should not necessarily be relied upon as a reliable indicator of future performance.

Litigation or Dispute Resolution – From time to time, we may be subject to litigation or dispute resolution relating to any number or type of claims, including claims for damages related to undetected errors or malfunctions of our services and products, claims related to previously-completed acquisition transactions, claims related to wrongful termination, discrimination, harassment, or employee matters, or claims relating to applicable securities laws. A product liability, patent infringement, acquisition-related, employee-related or securities class action claim could seriously harm our business because of the costs of defending the lawsuit, diversion of employees' time and attention and potential damage to our reputation. Further, our services and products are complex and often implemented by our customers to interact with third-party technology. Claims may be made against us for damages properly attributable to those third-party technologies, regardless of our lack of responsibility for any failure resulting in a loss. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims and incur damage to the reputation of Absolute and our products. The likelihood of such claims and the amount of damages we may be required to pay may increase as our customers increasingly use our services and products. Our insurance may not cover potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

Ability to Successfully Manage and Integrate Acquisitions and/or Dispositions – We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. Any integration process will require significant time and resources and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. The areas where we may face risks include:

- difficulties in integrating the operations, technologies, products and personnel of the companies we acquire into our operations;
- potential disruption of our on-going business and diversion of management's attention from normal daily operations of the business;
- insufficient revenues to offset increased expenses associated with acquisitions;
- potential for third party IP infringement claims against the companies we acquire;
- failure to successfully further develop acquired technology, resulting in the impairment of amounts capitalized as intangible assets;
- impairment of relationships with customers and partners of the companies we acquire or in which we invest, or with our customers and partners, as a result of the integration of acquired operations;
- impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- impact of known potential, or unknown, liabilities associated with the companies we acquire;
- failure to adequately understand and mitigate the risks of new product lines and services; and
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

We are likely to experience similar risks in connection with our future acquisitions, if any. Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, incur unanticipated liabilities and adversely affect our business, operating results or financial condition, or result in significant or material control weaknesses.

Future acquisitions or dispositions, including the recently-completed disposition of our Absolute Manage and Absolute Service product lines, could also result in dilutive issuances of our equity securities, a decrease in our cash and cash equivalents and short-term investments, the incurrence of additional expense related to compliance, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and negatively impact our operating results.

The Effect of Amortization of Revenue Over the Term of the Subscription – Absolute generally recognizes revenue from customer subscriptions ratably over the terms of the Billings. The average term (and related renewal subscription) is approximately 36 months, although terms under this model can range from one year to as much as five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to Billings entered into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, Absolute may be unable to adjust its cost structure to reflect the changes in Billings. Accordingly, the effect of significant downturns in sales and market acceptance of the Company's service or products may not be fully reflected in Absolute's results of operations until future periods.

Billings – Management considers Billings to be an important financial performance indicator for the Company. Most Billings (greater than 90%) are conducted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders, which include ship dates, customer name, product, pricing and volume, come in various forms from the reseller partner (sales reports, purchase orders, shipping reports, royalty reports, etc.). Absolute ships the software, commences the subscription term and invoices the reseller (and receives payment from the reseller) based on receipt of, or ship dates contained in, these forms of evidence of the end customer purchase, and reports this as a Billing for the applicable period. Accordingly, Absolute is relying upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns is kept to a minimum. Historically, Absolute's experience with returns has corroborated that this reliance is sufficient. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Billings and revenue performance. However, Absolute does not make a provision against Billings for potential returns because revenue recognition from Billings does not commence until the month after sale so there would be no income statement impact as a result of such provision, and the revenue recognition term averages approximately 36 months compared to industry standard return policies which are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in Billings and deferred revenue figures until a future period.

Income Taxes – Significant judgment is required in determining our provision for income taxes. Various internal and external factors may have favourable or unfavourable effects on our future provision for income taxes, income taxes payable and/or effective income tax rate. These factors include, but are not limited to: changes in tax laws, regulations and/or rates; results of audits by tax authorities; changing interpretations of existing tax laws or regulations; changes in estimates of prior years' items; future levels

of R&D spending; changes in the overall mix of income among the different jurisdictions in which we operate; and changes in overall levels of income before taxes. To the extent that the taxation authorities do not agree with our tax positions, we may not be able to realize all or a portion of the tax benefits recognized. Furthermore, new accounting pronouncements or new interpretations of existing accounting pronouncements (such as those described in "Recent Accounting Pronouncements" in this MD&A) can have a material impact on our effective income tax rate.

The Company and its subsidiaries file income tax returns and pay income taxes in jurisdictions where we believe we are subject to tax. In jurisdictions in which the Company and its subsidiaries do not believe we are subject to tax and therefore do not file income tax returns, we can provide no certainty that tax authorities in those jurisdictions will not subject one or more tax years (since inception of the Company or its subsidiaries) to examination. Tax examinations are often complex as tax authorities may disagree with the treatment of items reported by the Company, the result of which could have a material adverse effect on our financial condition and results of operations.

Operating Environment – The Absolute software that enables Absolute's product operates in a potentially disruptive environment. In addition, Absolute's services rely upon a connection to the Absolute Monitoring Center. If the computer is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen device. If Absolute is unable to successfully demonstrate to customers that the Absolute agent will call in, it may affect Absolute's ability to sell its Absolute platform products.

Legislative Risk – New laws that restrict the manner in which we conduct forensic investigations, or our ability to track and recover missing devices, could negatively impact our revenue, profit, and cash flows. Certain investigative techniques may become prohibited in certain jurisdictions, or additional and more costly steps or changes to our technology may be required in order to comply with new laws. In addition, our business model may be inadvertently affected by laws intended to address other problems that are receiving increasing attention from the media, the public and legislators. If these proposed laws do not include inappropriate exemptions for theft recovery, we may incur higher costs for lobbying and education efforts or may need to change our theft recovery methodology, our recovery success rate may decline and our service guarantee payments may increase.

Consumer Product Liability – The Company may be subject to claims related to product liability and consumer protection legislation, particularly in the United States.

The limitation of liability provisions in the standard terms and conditions in our license agreements may not fully or effectively protect us from claims as a result of federal, state, or local laws or ordinances, or unfavorable judicial decisions in the United States or other countries. The sale and support of our products also entails the risk of product liability claims. Although we may be indemnified by our third-party manufacturers for product liability claims arising out of manufacturing defects or inadvertent activation by manufacturers of our Absolute agent on endpoint devices, because we control the design of our products, we may not be indemnified for product liability claims arising out of design defects. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation, divert management's time and other resources, and harm our reputation.

Customer Subscription Renewal Rates – Absolute typically generates 80-90% of its annual Billings through purchases and subscription renewals from existing customers. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with the services and their ability to continue their operations and spending levels. If our customers do not renew their service subscriptions, our revenue will decline and our business will suffer.

Cyclical Nature of our Business – Our business may be impacted from time to time by the general cyclical and seasonal nature of PC and other device purchases by corporate, education and governmental entities. Factors which may create cyclical fluctuations include the development and adoption of new operating system software, the expiry of leases on devices or the introduction of newer or more advanced devices, legal and regulatory requirements, timing of contract renewals between our partners and their own customers and seasonal-based purchasing for educational institutions. Since some of our revenue from particular products and services are tied to the volume of shipments being processed, adverse fluctuations in the volume of global shipments may adversely affect our revenues. There can be no assurance that declines in shipment volumes in the United States or internationally will not have a material adverse effect on our business.

Other Proprietary Rights – In addition to patents, the Company relies on, among other things, copyrights, trademarks, trade secrets, confidentiality procedures and contractual provisions to protect its proprietary rights in Canada, the United States and other countries. While the Company enters into confidentiality and non-disclosure agreements with its employees, consultants, business partners, customers, potential customers and other third parties having access to proprietary and confidential information, it is possible that the following may occur: some or all of its confidentiality agreements will not be honoured; third parties will independently develop equivalent technology or misappropriate the Company's technology and/or designs; disputes will arise with the Company's strategic partners, customers or others concerning the ownership of intellectual property; there may occur an unauthorized disclosure of source code, know-how or trade secrets; or contractual provisions may not be enforced in foreign jurisdictions. There can be no assurance that the Company will be successful in protecting its proprietary rights in Canada, the United States and other countries.

Securities Analysts – The trading market for Absolute's common shares is in part affected by the research and reports that independent industry or financial analysts publish about Absolute or its business. Absolute does not control these analysts. If one or more of the analysts who publish reports on Absolute were to downgrade Absolute's stock or lower future stock price targets or estimates of operating results, Absolute's stock price could be adversely affected. Furthermore, if one or more of these analysts cease coverage of Absolute, Absolute could lose visibility in the market, which in turn could cause Absolute's stock price to decline.