

*Interim Condensed Consolidated Financial Statements of*

**ABSOLUTE SOFTWARE CORPORATION**

*Three and six months ended December 31, 2017 and 2016*

(Unaudited)

**ABSOLUTE SOFTWARE CORPORATION**  
**Condensed Consolidated Statements of Financial Position**  
(Expressed in United States dollars) (Unaudited)

	Notes	December 31, 2017	June 30, 2017
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents		\$ 33,067,480	\$ 32,511,093
Short-term investments	(Note 3)	367,790	366,789
Trade and other receivables	(Note 4)	14,240,222	19,460,872
Income taxes receivable	(Note 10)	251,015	83,487
Prepaid expenses and other		2,123,416	2,419,881
		<b>50,049,923</b>	54,842,122
PROPERTY AND EQUIPMENT		5,552,462	6,304,152
DEFERRED INCOME TAX ASSETS	(Note 10)	22,353,804	22,286,804
INTANGIBLE ASSETS AND GOODWILL	(Note 5)	14,308,763	14,894,518
		<b>\$ 92,264,952</b>	\$ 98,327,596
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and other payables	(Note 6)	\$ 11,856,321	\$ 13,079,456
Income taxes payable	(Note 10)	323,303	-
Accrued warranty		360,000	570,000
Deferred revenue – current	(Note 7)	71,540,962	72,361,648
		<b>84,080,586</b>	86,011,104
DEFERRED REVENUE	(Note 7)	64,800,692	66,040,653
		<b>148,881,278</b>	152,051,757
<b>CONTINGENCIES</b>			
	(Note 13)		
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	(Note 9(b))	67,182,623	64,875,130
Equity reserve		36,571,727	36,254,893
Treasury shares	(Note 9(j))	(499,443)	(499,443)
Deficit		(159,871,233)	(154,354,741)
		<b>(56,616,326)</b>	(53,724,161)
		<b>\$ 92,264,952</b>	\$ 98,327,596

**SUBSEQUENT EVENTS (Note 14)**

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on February 13, 2018:

(signed) "Daniel P. Ryan"  
Daniel P. Ryan, Director

(signed) "Josef Vejvoda"  
Josef Vejvoda, Director

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Income

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2017	2016	2017	2016
<b>REVENUE</b>		<b>\$ 23,212,319</b>	\$ 22,450,143	<b>\$ 46,210,009</b>	\$ 44,935,007
<b>COST OF REVENUE</b>		<b>3,652,728</b>	3,955,548	<b>7,215,495</b>	7,462,092
<b>GROSS MARGIN</b>		<b>19,559,591</b>	18,494,595	<b>38,994,514</b>	37,472,915
<b>OPERATING EXPENSES</b>					
Sales and marketing		<b>10,058,197</b>	11,056,328	<b>20,448,778</b>	22,414,917
Research and development		<b>4,915,532</b>	4,897,163	<b>10,331,785</b>	9,253,788
General and administration		<b>3,000,526</b>	3,464,838	<b>6,123,976</b>	6,425,475
Share-based compensation	(Note 9(i))	<b>375,641</b>	1,219,924	<b>1,203,000</b>	2,217,475
		<b>18,349,896</b>	20,638,253	<b>38,107,539</b>	40,331,655
<b>OPERATING INCOME (LOSS)</b>		<b>1,209,695</b>	(2,143,658)	<b>886,975</b>	(2,838,740)
<b>OTHER (EXPENSE) INCOME</b>					
Interest income, net		<b>14,299</b>	5,647	<b>20,632</b>	47,586
Foreign exchange loss		<b>(24,216)</b>	(49,735)	<b>(110,246)</b>	(29,245)
		<b>(9,917)</b>	(44,088)	<b>(89,614)</b>	18,341
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>		<b>1,199,778</b>	(2,187,746)	<b>797,361</b>	(2,820,399)
<b>INCOME TAX (EXPENSE) RECOVERY</b>	(Note 10)	<b>(1,549,000)</b>	345,000	<b>(1,291,000)</b>	188,000
<b>NET LOSS AND COMPREHENSIVE LOSS</b>		<b>\$ (349,222)</b>	\$ (1,842,746)	<b>\$ (493,639)</b>	\$ (2,632,399)
<b>BASIC AND DILUTED LOSS PER SHARE</b>		<b>\$ (0.01)</b>	\$ (0.05)	<b>\$ (0.01)</b>	\$ (0.07)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC</b>	(Note 9(k))	<b>39,993,620</b>	39,019,022	<b>39,888,593</b>	38,992,040

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statement of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital					
	Number of Common shares	Amount	Equity reserve	Treasury Shares	Deficit	Total
<b>BALANCE, JUNE 30, 2016</b>	<b>38,881,307</b>	<b>\$ 58,607,382</b>	<b>\$ 36,732,175</b>	<b>\$ -</b>	<b>\$ (139,049,869)</b>	<b>\$ (43,710,312)</b>
Shares issued on options exercised	225,925	1,290,359	(430,275)	-	-	860,084
Shares issued under Employee Share Purchase Plan	42,126	190,610	-	-	-	190,610
Shares issued under Phantom Share Unit Plan	6,844	46,851	(46,851)	-	-	-
Shares repurchased and cancelled under the Normal Course Issuer Bid	(132,400)	(195,522)	-	-	(416,520)	(612,042)
Shares committed to be repurchased under the Normal Course Issuer Bid	-	(218,116)	-	-	(486,702)	(704,818)
Treasury shares repurchased under the Normal Course Issuer Bid	-	-	-	(666,546)	-	(666,546)
Share-based compensation	-	-	2,217,475	-	-	2,217,475
Dividends paid	-	-	-	-	(4,748,878)	(4,748,878)
Net loss and total comprehensive loss	-	-	-	-	(2,632,399)	(2,632,399)
<b>BALANCE, DECEMBER 31, 2016</b>	<b>39,023,802</b>	<b>\$ 59,721,564</b>	<b>\$ 38,472,524</b>	<b>\$ (666,546)</b>	<b>\$ (147,334,368)</b>	<b>\$ (49,806,826)</b>
Shares issued on options exercised	435,913	2,749,422	(882,920)	-	-	1,866,502
Shares issued under Employee Share Purchase Plan	42,329	170,867	-	-	-	170,867
Shares issued under Phantom Share Unit Plan	320,301	2,234,355	(2,234,355)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	7,104	35,132	(35,132)	-	-	-
Shares repurchased and cancelled under the Normal Course Issuer Bid	(147,700)	(36,210)	-	-	26,375	(9,835)
Treasury shares repurchased under the Normal Course Issuer Bid	-	-	-	167,103	-	167,103
Share-based compensation	-	-	934,776	-	-	934,776
Dividends paid	-	-	-	-	(4,727,972)	(4,727,972)
Net loss and total comprehensive loss	-	-	-	-	(2,318,776)	(2,318,776)
<b>BALANCE, JUNE 30, 2017</b>	<b>39,681,749</b>	<b>\$ 64,875,130</b>	<b>\$ 36,254,893</b>	<b>\$ (499,443)</b>	<b>\$ (154,354,741)</b>	<b>\$ (53,724,161)</b>
Shares issued on options exercised	261,125	1,727,195	(380,068)	-	-	1,347,127
Shares issued under Employee Share Purchase Plan	47,616	198,875	-	-	-	198,875
Shares issued under Phantom Share Unit Plan	37,846	218,604	(218,604)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	29,443	162,819	(162,819)	-	-	-
Share-based compensation	-	-	1,078,325	-	-	1,078,325
Dividends paid	-	-	-	-	(5,022,853)	(5,022,853)
Net loss and total comprehensive loss	-	-	-	-	(493,639)	(493,639)
<b>BALANCE, DECEMBER 31, 2017</b>	<b>40,057,779</b>	<b>\$ 67,182,623</b>	<b>\$ 36,571,727</b>	<b>\$ (499,443)</b>	<b>\$ (159,871,233)</b>	<b>\$ (56,616,326)</b>

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statements of Cash Flows

Three and six months ended December 31, 2017 and 2016  
(Expressed in United States dollars) (Unaudited)

Notes	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
<b>OPERATING ACTIVITIES</b>				
Net loss	\$ (349,222)	\$ (1,842,746)	\$ (493,639)	\$ (2,632,399)
Items not involving cash				
Amortization of property and equipment	793,455	717,321	1,540,151	1,399,769
Amortization of acquired intangible assets (Note 5)	11,250	34,333	47,500	84,409
Amortization of intangible assets – contract costs and brand (Note 5)	2,294,491	2,237,148	4,562,765	4,485,758
Share-based compensation (Note 9(i))	338,035	1,215,437	1,003,112	2,212,988
Deferred income taxes (Note 10)	925,000	226,000	(67,000)	107,000
Amortization of investment premium	-	513,236	-	466,885
Change in non-cash working capital				
Trade and other receivables	737,414	(1,453,667)	5,220,650	7,326,171
Income taxes receivable	88,281	554,603	155,775	123,567
Prepaid expenses and other	479,158	(2,158,577)	296,465	(4,032,572)
Intangible assets – contract costs and brand additions (Note 5)	(1,990,064)	1,463,039	(4,024,510)	(203,268)
Trade and other payables	90,409	(1,212,616)	(713,974)	(4,423,874)
Accrued warranty	10,000	-	(210,000)	30,000
Deferred revenue	(232,958)	(1,480,486)	(2,060,647)	(4,251,459)
<b>CASH FROM (USED IN) OPERATING ACTIVITIES</b>	<b>3,195,249</b>	<b>(1,186,975)</b>	<b>5,256,648</b>	<b>692,975</b>
<b>INVESTING ACTIVITIES</b>				
Purchase of property and equipment	(348,902)	(1,041,818)	(1,265,290)	(3,082,984)
Income taxes paid on disposal of business unit	-	-	-	(2,623,890)
Proceeds from investments	-	23,355,000	-	23,355,000
<b>CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(348,902)</b>	<b>22,313,182</b>	<b>(1,265,290)</b>	<b>17,648,126</b>
<b>FINANCING ACTIVITIES</b>				
Repurchase of common shares for cancellation (Note 9(b))	-	(612,040)	-	(612,040)
Dividends paid (Note 9(h))	(2,506,999)	(2,316,379)	(5,022,852)	(4,748,878)
Purchase of treasury shares (Note 9(j))	-	-	-	-
Issuance of common shares (Note 9(b))	331,525	451,026	1,603,820	973,048
<b>CASH USED IN FINANCING ACTIVITIES</b>	<b>(2,175,474)</b>	<b>(2,477,393)</b>	<b>(3,419,032)</b>	<b>(4,387,870)</b>
<b>FOREIGN EXCHANGE EFFECT ON CASH</b>	<b>(5,900)</b>	<b>(45,866)</b>	<b>(15,939)</b>	<b>19,986</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>664,973</b>	<b>18,602,948</b>	<b>556,387</b>	<b>13,973,217</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>32,402,507</b>	<b>18,463,121</b>	<b>32,511,093</b>	<b>23,092,852</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 33,067,480</b>	<b>\$ 37,066,069</b>	<b>\$ 33,067,480</b>	<b>\$ 37,066,069</b>

### SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 11)

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 1. NATURE OF OPERATIONS

Absolute Software Corporation (the “Company”) was incorporated under the Company Act (British Columbia) on November 24, 1993. The Company’s principal business activities are the development, marketing, and support of endpoint security and data risk management solutions for computing devices such as desktops, laptops, tablets and smartphones. The Company’s solutions include remote data and device security, powered by its proprietary and patented Persistence technology. The Company markets its solutions through computer original equipment manufacturers (“OEMs”), distributors, value added resellers, and directly to its customers, which includes corporations, government entities, educational institutions, and consumers. While the Company’s products are available internationally through resellers in Europe, Australia, South Africa, South America, and the Asia Pacific and Latin American regions, the majority of its sales are generated in North America. The Company’s head office, principal address and registered office is Suite 1400, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1K8. The Company trades on the TSX under the symbol ABT.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) *Basis of presentation*

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended June 30, 2017.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended June 30, 2017. Interim results are not necessarily indicative of the results expected for the fiscal year.

#### (b) *Significant accounting judgment*

The critical judgment that the Company’s management has made in the process of applying the Company’s accounting policies, apart from those involving estimations (Note 2(c)), that has the most significant effect on the amounts recognized in the Company’s consolidated financial statements is related to the determination of the functional currency for the Company and its subsidiaries.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) *Key sources of estimation uncertainty*

The preparation of these interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The interim consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the date of the statement of financial position, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, include, but are not limited to, the following:

- the assessment of the carrying values of allowances for unrecoverable accounts receivable and assets;
- the inputs used in accounting for share-based compensation in the statement of operations; and
- the recognition and recoverability of the Company's deferred tax assets.

#### (d) *Adoption of Future Accounting Standards*

##### *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.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Based on a preliminary analysis, the Company anticipates that its 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, the Company will continue to recognize subscription term revenues ratably over their term. The Company is executing its implementation plan and is in the process of determining whether any other adjustments may be required relating to the application of other aspects of IFRS 15. The Company will provide further updates as it continues to execute its implementation plan, and anticipates its analysis will be complete during the fourth quarter of fiscal 2018.

### 3. SHORT-TERM INVESTMENTS

At December 31 and June 30, 2017, the Company's short-term investments are comprised entirely of term deposits. All short-term investments are classified as held to maturity.

### 4. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables are comprised of the following:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Trade receivables	\$ 14,510,927	\$ 19,570,190
Other receivables	31,700	185,837
Allowance for doubtful accounts	<u>(302,405)</u>	<u>(295,155)</u>
	<u>\$ 14,240,222</u>	<u>\$ 19,460,872</u>

At December 31, 2017, 2% of the Company's accounts receivable balance is over 90 days past due (June 30, 2017 – 2%). As at December 31, 2017, 34%, 23%, and 22% (June 30, 2017 - 21%, 12%, and 33%) of the receivable balances are owing from three OEM and distributor partners. At June 30, 2017, a fourth partner represented 14%.



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 5. INTANGIBLE ASSETS AND GOODWILL

The following tables summarize intangible asset activity for the six months ended December 31, 2017 and 2016:

	Six months ended December 31, 2017			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,488,531	\$ 3,887,010	\$ (4,436,748)	\$ 12,938,793
Patents and other	51,250	-	(47,500)	3,750
Brand rights – LoJack	254,737	137,500	(126,017)	266,220
Goodwill	1,100,000	-	-	1,100,000
	<b>\$ 14,894,518</b>	<b>\$ 4,024,510</b>	<b>\$ (4,610,265)</b>	<b>\$ 14,308,763</b>

	Six months ended December 31, 2016			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,923,735	\$ 3,907,327	\$ (4,382,942)	\$ 13,448,120
Patents and other	164,327	-	(145,212)	19,115
Brand rights – LoJack	194,200	125,245	(102,816)	216,629
Goodwill	1,100,000	-	-	1,100,000
	<b>\$ 15,382,262</b>	<b>\$ 4,032,572</b>	<b>\$ (4,630,970)</b>	<b>\$ 14,783,864</b>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 6. TRADE AND OTHER PAYABLES

The Company's trade and other payables are comprised of the following:

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Trade payables	\$ 4,286,262	\$ 3,968,295
Payroll and employee benefits	4,260,945	5,297,262
Deferred share units	1,106,861	982,187
Accrued liabilities	875,912	1,382,801
Lease inducements	994,799	1,115,480
Sales taxes payable	331,542	333,431
	<u>\$ 11,856,321</u>	<u>\$ 13,079,456</u>

### 7. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on billings to invoiced billings, revenue, and other adjustments:

	<u>Six months ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ 138,402,301	\$ 137,974,162
Billings	44,152,211	40,683,857
Revenue recognized	(46,210,009)	(44,935,007)
Other adjustments	(2,849)	(309)
Balance, end of period	<u>136,341,654</u>	<u>133,722,703</u>
Less: current portion	<u>(71,540,962)</u>	<u>(71,130,316)</u>
	<u>\$ 64,800,692</u>	<u>\$ 62,592,387</u>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 8. POST-RETIREMENT BENEFITS AND REORGANIZATION CHARGES

During the three months ended December 31, 2016, under the terms of an agreement with a former senior officer, the Company incurred post-retirement benefits in the amount of \$638,000. In addition, during the six months ended December 31, 2016, the Company reorganized certain functional departments to optimize internal resources. Pursuant to the reorganization, the Company incurred termination benefits amounting to \$2,121,148.

These post-retirement benefits and reorganization charges were attributable to the following areas for the three and six months ended December 31, 2016:

	Three months ended December 31, 2016	Six months ended December 31, 2016
Research and development	\$ 756,800	\$ 1,058,774
Sales and marketing	366,300	773,780
Cost of revenue	427,408	535,240
General and administration	352,358	391,354
	<u>\$ 1,902,866</u>	<u>\$ 2,759,148</u>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

(b) *Issued and outstanding*

During the six months ended December 31, 2017, the Company issued 261,125 common shares on exercise of employee stock options for total proceeds of \$1,347,127. An amount of \$380,068 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the six months ended December 31, 2017, the Company issued 47,616 common shares pursuant to its employee share purchase plan for total proceeds of \$198,875.

During the six months ended December 31, 2017, the Company issued 37,846 common shares pursuant to its Phantom Share Unit Plan with a value of \$218,604.

During the six months ended December 31, the Company issued 29,443 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a value of \$162,819.

During the six months ended December 31, 2016, the Company issued 225,925 common shares on exercise of employee stock options for total proceeds of \$860,084. An amount of \$430,275 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the six months ended December 31, 2016, the Company issued 42,126 common shares pursuant to its employee share purchase plan for total proceeds of \$190,610.

During the six months ended December 31, 2016, the Company issued 6,844 common shares pursuant to its Phantom Share Unit Plan with a value of 46,851.

On September 6, 2017, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on September 11, 2017 that enables the Company to purchase and cancel up to 2,538,721 of its common shares or return such shares to treasury. 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 11, 2017, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, during the six months ended December 31, 2016, the Company repurchased and cancelled 132,400 common shares for a total cost of \$612,042. On cancellation of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in deficit, which amounted to \$416,520.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

#### (c) Stock Option Plan

The Company's share-based compensation plans include an Employee Stock Option Plan ("Option Plan").

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007, 2009, and 2015). Under the Option Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Phantom Share Unit Plan and Performance and Restricted Share Unit Plan. On this basis, at December 31, 2017, the maximum number of common shares available under the Option Plan was 4,806,933 (June 30, 2017 – 3,992,558), of which 792,966 remained available for grant thereunder.

Terms and conditions of options granted under the Option Plan are determined solely by the Board of Directors. Under the Option Plan, the exercise price of each option equals the last closing market price of the Company's common shares before the grant date. The term of option grants may not exceed 7 years from the date of grant of the option, and are generally granted with a four year vesting period (25% vesting on each anniversary date).

The following table summarizes activity under the Option Plan for the six months ended December 31, 2017 and 2016:

	Six months ended December 31,			
	2017		2016	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	2,961,057	\$ 7.46	3,718,950	\$ 7.13
Granted	474,002	7.37	122,720	7.31
Exercised	(261,125)	6.34	(225,925)	5.03
Forfeited	(281,704)	8.82	(95,475)	8.52
Expired	(18,250)	7.58	(26,375)	8.15
Outstanding, end of period	2,873,980	\$ 7.42	3,493,895	\$ 7.22

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

#### *Fair values – Option Plan*

The total fair value of options granted under the Option Plan in the six months ended December 31, 2017 was \$415,254 (2016 - \$112,108). The weighted average grant date fair value of options granted during the six months ended December 31, 2017 was \$0.89 (2016 - \$0.91).

The estimated fair value of each option granted under the Option Plan was estimated on the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Six months ended December 31,	
	2017	2016
Risk-free interest rate	1.4%	0.8%
Dividend yield	4.3%	4.4%
Expected life (in years)	3.8	4.0
Volatility	29%	31%

#### *(d) Phantom Share Unit Plan*

The Company's share-based compensation plans also include a Phantom Share Unit ("PhSU") Plan.

In 2015, the Company's shareholders ratified the PhSU Plan. Under the PhSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan, the Performance and Restricted Share Unit Plan, and the Employee Share Purchase Plan. On this basis, at December 31, 2017, 638,097 (June 30, 2017 – 867,496) common shares were eligible for grant under the PRSU Plan, of which 606,398 remained available for grant thereunder.

Terms and conditions of PhSUs granted are determined pursuant to the PhSU Plan. Under the PhSU Plan, PhSUs are issued to eligible persons and generally vest over a two or three year period (50% or 33.3%, respectively, vesting on each anniversary date). PhSUs may be settled, at the Company's sole discretion, in common shares, cash, or a combination thereof. If settled in cash, the amount paid is based on the volume weighted average daily price for the five days preceding the payment.

# ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

The following table summarizes activity under the PhSU Plan for the six months ended December 31, 2017 and 2016:

	Six months ended December 31,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	118,275	439,558
Granted	2,554	4,503
Released	(37,846)	(5,990)
Forfeited	(51,284)	(2,008)
Outstanding, end of period	31,699	436,063

The total fair value of PhSUs granted under the PhSU Plan in the six months ended December 31, 2017 was \$18,352 (2016 - \$33,841). The weighted average grant date fair value of PhSUs granted during the six months ended December 31, 2017 was \$7.52 (2016 - \$7.19). At December 31, 2017, none of the outstanding PhSUs had vested.

#### *(e) Performance and Restricted Share Unit Plan*

The Company's share-based compensation plans also include a Performance and Restricted Share Unit ("PRSU") Plan. Under the PRSU Plan, the Company may issue Performance Share Units ("PSU"s) and Restricted Share Units ("RSU"s).

In 2016, the Company's shareholders ratified the PRSU Plan. Under the PRSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan and the PhSU Plan. On this basis, at December 31, 2017, 1,901,254 (June 30, 2017 - 1,031,501) common shares were eligible for grant under the PRSU Plan, of which 792,996 remained available for grant thereunder.

In addition, in the six months ended December 31, 2016, the Company instituted a Market-based PRSU Plan ("Market PRSU Plan"). Shares issued pursuant to the Market PRSU Plan will be acquired, at the Company's election, under the terms of permissible share buyback mechanisms, including the Company's Normal Course Issuer Bid, and will not be issued from treasury.

Terms and conditions of PSUs and RSUs granted are determined by the Board of Directors.

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### 9. SHARE CAPITAL (Continued)

#### *Performance Share Units*

Under the PRSU Plan, PSUs are issued to eligible persons and generally vest after a three year period (100% cliff vesting on the third anniversary date). The number of PSUs that ultimately vest is based on an Adjustment Factor, as determined by criteria set by the Board of Directors at the date of grant, and can range from 0% to 200% of the number of units initially granted. The expiry date of the RSU grants is generally December 31 of the tenth year from the date of grant.

The following table summarizes PSU activity under the PRSU Plan for the six months ended December 31, 2017 and 2016:

	Six months ended	
	December 31,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	122,263	49,811
Granted	86,265	68,359
Forfeited	(35,382)	-
Outstanding, end of period	173,146	118,170

The outstanding PSUs at December 31, 2017 include 38,587 units that were issued pursuant to the Market PRSU Plan.

#### *Fair values – Performance Share Units*

The total fair value of PSUs granted under the PRSU Plan in the six months ended December 31, 2017 was \$732,544 (2016 - \$594,606). The weighted average grant date fair value of PSUs granted during the six months ended December 31, 2017 was \$8.77 (2016 - \$8.77). At December 31, 2017, 10,370 of the outstanding PSUs had vested.

The Adjustment Factor related to the PSUs granted was related to a market-based performance condition. The fair value of the PSUs granted was estimated on the grant date using a Monte Carlo simulation model, taking into account the fair value of the Company's common shares on the date of grant, potential future dividends accruing to the PSU holder's benefit, and encompassing a wide range of possible future market conditions.



# ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

#### *Restricted Share Units*

Under the PRSU Plan, RSUs are issued to eligible persons and generally vest over a three year period (33.3% vesting on each anniversary date). The expiry date of the RSU grants is generally December 31 of the year in which the last tranche vests.

The following table summarizes RSU activity under the PRSU Plan for the six months ended December 31, 2017 and 2016:

	<u>Six months ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<u>Number of</u>	<u>Number of</u>
	<u>units</u>	<u>units</u>
Outstanding, beginning of period	636,732	271,856
Granted	514,137	261,538
Released	(29,443)	(851)
Forfeited	(95,061)	(4,083)
Expired	(1,708)	-
Outstanding, end of period	<u>1,024,657</u>	<u>528,460</u>

The outstanding RSUs at December 31, 2017 include 50,958 units that were issued pursuant to the Market PRSU Plan.

#### *Fair values – Restricted Share Units*

The total fair value of RSUs granted under the PRSU Plan in the six months ended December 31, 2017 was \$2,955,412 (2016 - \$1,487,051). The weighted average grant date fair value of RSUs granted during the six months ended December 31, 2017 was \$5.84 (2016 - \$5.75). At December 31, 2017, 146,701 of the outstanding RSUs had vested.

The fair value of the RSUs granted was estimated on the grant date using the fair value of the Company's common shares on the date of grant and potential future dividends accruing to the RSU holder's benefit.

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Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

#### (f) *Deferred Share Unit Plan*

The Company's share-based compensation plans also include a Deferred Share Unit ("DSU") Plan. The DSU Plan is a cash-settled share based compensation plan.

In 2016, the Company's shareholders ratified the DSU Plan. Terms and conditions of DSUs granted are determined by the Board of Directors.

Under the DSU Plan, DSUs are issued to eligible persons and generally vest over a one year period (25% per three months). DSUs are not eligible for redemption until the unitholder ceases to be an eligible person. The term of the DSU grants is coterminous with the date the unitholder ceases to be an eligible person.

The following table summarizes activity under the DSU Plan for the six months ended December 31, 2017 and 2016:

	<u>Six months ended December 31,</u>	
	<u>2017</u>	<u>2016</u>
	<b>Number of units</b>	Number of units
Outstanding, beginning of period	<b>208,000</b>	104,000
Granted	<b>24,625</b>	-
Outstanding, end of period	<b>232,625</b>	104,000

#### *Fair values – Deferred Share Units*

The total fair value of DSUs granted under the DSU Plan in the six months ended December 31, 2017 was \$68,844 (2016 - \$nil). The weighted average grant date fair value of DSUs granted during the six months ended December 31, 2017 was \$5.48 (2016 - \$nil). The fair value owing was marked to market at September 30, 2017, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$1,106,861 (June 30, 2017 - \$982,187).

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### 9. SHARE CAPITAL (Continued)

#### (g) Employee Share Purchase Plan

The Company's share-based compensation plans also include an Employee Share Purchase Plan ("Purchase Plan").

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the six months ended December 31, 2017, 47,616 common shares (2016 – 42,126 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$4.18 (2016 - \$4.24) per share.

At December 31, 2017, 186,598 common shares remained available for grant under the Purchase Plan.

#### (h) Dividends

In the six months ended December 31, 2017, the Company declared two quarterly dividends of CAD\$0.08 per share on its common shares. The dividends were paid in cash to shareholders of record at the close of business on August 4, 2017 and November 6, 2017.

#### (i) Share-based compensation

The Company's share-based compensation for the three and six months ended December 31, 2017 and 2016 was comprised as follows:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
Restricted share units	\$ 579,643	\$ 576,657	\$ 969,370	\$ 803,366
Stock option plan	777	249,043	136,482	516,935
Performance share units	61,322	116,716	131,605	178,762
Employee share purchase plan	21,855	15,622	42,460	32,350
Deferred share unit plan	(37,608)	(38,341)	124,674	81,439
Phantom share unit plan	(250,348)	300,227	(201,591)	604,623
	<b>\$ 375,641</b>	<b>\$ 1,219,924</b>	<b>\$ 1,203,000</b>	<b>\$ 2,217,475</b>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

The Company's share-based compensation was attributable to the following areas for the three and six months ended December 31, 2017 and 2016:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2017	2016	2017	2016
Cost of revenue	\$ 66,147	\$ 27,687	\$ 102,905	\$ 32,953
Sales and marketing	292,519	444,328	418,155	730,865
Research and development	(308,725)	295,747	(52,469)	514,763
General and administration	325,700	452,162	734,409	938,894
	<b>\$ 375,641</b>	<b>\$1,219,924</b>	<b>\$ 1,203,000</b>	<b>\$ 2,217,475</b>

(j) *Treasury shares*

During the six months ended December 31, 2016, the Company acquired 104,567 treasury shares for a total cost of \$499,443. The treasury shares are presented as a reduction in shareholder's deficiency. The treasury shares were purchased in order to fund the Company's Market PRSU Plan (note 9(e)).

(k) *Potentially dilutive securities and diluted number of shares outstanding*

For the three and six months ended December 31, 2017 and 2016, the basic and diluted weighted average number of common shares outstanding was the same. For the three and six months ended December 31, 2017, there were 1,326,058 and 1,333,421 potentially dilutive securities, respectively (three and six months ended December 31, 2016 – 1,011,751 and 1,060,791, respectively).

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

### 10. INCOME TAXES

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 deferred income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. The Company's interim tax provisions are estimated based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2017.

The Company's income tax (expense) recovery was comprised as follows:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
Current income tax (expense) recovery	\$ (1,629,000)	\$ 739,000	\$ (1,843,000)	\$ 671,000
Deferred income tax recovery (expense)	80,000	(394,000)	552,000	(483,000)
	<b>\$ (1,549,000)</b>	<b>\$ 345,000</b>	<b>\$ (1,291,000)</b>	<b>\$ 188,000</b>

Income tax (expense) recovery for the three and six months ended December 31, 2017 and 2016 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended December 31,		Six months ended December 31,	
	2017	2016	2017	2016
Income (loss) before income taxes	\$ 1,199,778	\$(2,187,529)	\$ 797,361	\$(2,820,182)
Combined Federal and Provincial income tax rate	<b>26.50%</b>	26.00%	<b>26.50%</b>	26.00%
Tax (expense) recovery at statutory rate	<b>(317,941)</b>	568,758	<b>(211,301)</b>	733,248
Permanent differences	<b>45,943</b>	(149,487)	<b>(123,882)</b>	(318,992)
Foreign (income) losses tax effected at higher rates	<b>(336,105)</b>	111,397	<b>(311,178)</b>	47,088
Changes in statutory tax rates	<b>(1,102,543)</b>	-	<b>(1,102,543)</b>	-
Use of previously unrecognized tax losses	<b>165,226</b>	-	<b>350,089</b>	-
Losses and temporary differences for which no deferred asset has been recognized	<b>(3,580)</b>	(185,668)	<b>(3,973)</b>	(273,344)
Amounts over provided for in prior years	-	-	<b>111,788</b>	-
Total income tax (expense) recovery	<b>\$ (1,549,000)</b>	<b>\$ 345,000</b>	<b>\$ (1,291,000)</b>	<b>\$ 188,000</b>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 10. INCOME TAXES (Continued)

In the three and six months ended December 31, 2017, the Company's effective tax rate was impacted by a \$1,102,543 deferred tax expense (three and six months ended December 31, 2016 - \$nil and \$nil) related to a revaluation of its U.S. based deferred tax assets to reflect the recently enacted decrease in the U.S. federal corporate tax rate.

At December 31, 2017, the Company had total net deferred tax assets of \$22.4 million (June 30, 2017 - \$22.3 million), primarily related to deferred revenue balances, current income taxes receivable of \$251,000 (June 30, 2017 - \$83,000), primarily comprised of tax instalments paid, and current taxes payable of \$323,000 (June 30, 2017 - \$nil) in other jurisdictions. In the three and six months ended December 31, 2017 and 2016, the Company's current tax payable is partially offset by estimated investment tax credit ("ITC") receivable balances. The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, deferred tax assets and operating loss carry-forwards.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

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### 11. SUPPLEMENTAL CASH FLOW INFORMATION

*Composition of cash and cash equivalents*

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
Cash	\$ 11,984,850	\$ 16,189,737
Cash equivalents	<u>21,082,630</u>	<u>16,321,356</u>
	<u>\$ 33,067,480</u>	<u>\$ 32,511,093</u>

*Other cash flow information*

	<u>Three months ended December 31,</u>		<u>Six months ended December 31,</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
<i>Non-cash investing and financing activities</i>				
Accrued purchases of property and equipment	\$ (290,172)	\$ (208,305)	\$ 476,829	\$ 806,847

### 12. SEGMENTED INFORMATION

*Entity wide disclosures*

Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include property and equipment and intangible assets.

	<u>Three months ended December 31,</u>		<u>Six months ended December 31,</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
<b>Revenue</b>				
United States	\$ 20,440,824	\$ 19,653,184	\$ 40,821,077	\$ 39,254,545
Rest of world	2,299,291	2,314,836	4,466,101	4,711,004
Canada	<u>472,204</u>	482,123	<u>922,831</u>	969,458
	<u>\$ 23,212,319</u>	\$ 22,450,143	<u>\$ 46,210,009</u>	\$ 44,935,007

	<u>December 31, 2017</u>	<u>June 30, 2017</u>
<b>Long-lived assets</b>		
United States and rest of world	\$ 11,297,783	\$ 11,534,466
Canada	<u>8,563,442</u>	<u>9,664,204</u>
	<u>\$ 19,861,225</u>	<u>\$ 21,198,670</u>

# ABSOLUTE SOFTWARE CORPORATION

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### 13. CONTINGENCIES

Due to the nature of the Company's business, products, and patent portfolio, 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. The Company believes that any such claims currently existing are without merit and intends to vigorously defend any such assertions. At this time, there are no legal matters of this type which are believed to be material to the Company's financial performance, liquidity, or financial condition.

In order to establish and defend its proprietary rights and patent portfolio, the Company is the initiating party in one patent-related matter. The Company's management believes it will prevail in this case, however, the potential outcome, timing, and impact on the Company's business and patent portfolio is not determinable at this time.

### 14. SUBSEQUENT EVENTS

*(a) Employee share purchase plan*

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

*(b) 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.