

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three months ended September 30, 2017 and 2016

(Unaudited)

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

	Notes	September 30, 2017	June 30, 2017
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 32,402,507	\$ 32,511,093
Short-term investments	(Note 3)	367,098	366,789
Trade and other receivables	(Note 4)	14,977,636	19,460,872
Income tax receivable		15,993	83,487
Prepaid expenses and other		2,602,574	2,419,881
		50,365,808	54,842,122
PROPERTY AND EQUIPMENT		5,706,843	6,304,152
DEFERRED INCOME TAX ASSETS	(Note 10)	23,278,804	22,286,804
INTANGIBLE ASSETS AND GOODWILL	(Note 5)	14,624,440	14,894,518
		\$ 93,975,895	\$ 98,327,596
LIABILITIES			
CURRENT			
Trade and other payables	(Note 6)	\$ 11,469,940	\$ 13,079,456
Accrued warranty		350,000	570,000
Deferred revenue – current	(Note 7)	71,315,407	72,361,648
		83,135,347	86,011,104
DEFERRED REVENUE	(Note 7)	65,259,205	66,040,653
		148,394,552	152,051,757
CONTINGENCIES	(Note 13)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 9(b))	66,493,973	64,875,130
Equity reserve		36,601,824	36,254,893
Treasury shares		(499,443)	(499,443)
Deficit		(157,015,011)	(154,354,741)
		(54,418,657)	(53,724,161)
		\$ 93,975,895	\$ 98,327,596

SUBSEQUENT EVENT (Note 14)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Approved on behalf of the Board on November 13, 2017:

(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 months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

	Notes	2017	2016
REVENUE		\$ 22,997,690	\$ 22,484,864
COST OF REVENUE		3,562,767	3,506,544
GROSS MARGIN		19,434,923	18,978,320
OPERATING EXPENSES			
Sales and marketing	(Note 8)	10,390,581	11,358,589
Research and development		5,416,253	4,356,625
General and administration		3,123,450	2,960,637
Share-based compensation	(Note 9(i))	827,359	997,551
		19,757,643	19,673,402
OPERATING LOSS		(322,720)	(695,082)
OTHER (EXPENSE) INCOME			
Interest income, net		6,333	41,939
Foreign exchange (loss) gain		(86,030)	20,490
		(79,697)	62,429
NET LOSS BEFORE INCOME TAXES		(402,417)	(632,653)
INCOME TAX RECOVERY (EXPENSE)	(Note 10)	258,000	(157,000)
NET LOSS AND TOTAL COMPREHENSIVE LOSS		\$ (144,417)	\$ (789,653)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.00)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 9(j))	39,783,566	38,972,290

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statement of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital		Equity reserve	Treasury shares	Deficit	Total
	Number of Common shares	Amount				
BALANCE, JUNE 30, 2016	38,881,307	\$ 58,607,382	\$ 36,732,175	\$ -	\$ (139,049,869)	\$ (43,710,312)
Shares issued on options exercised	107,875	637,933	(224,390)	-	-	413,543
Shares issued under Employee Share Purchase Plan	42,126	190,610	-	-	-	190,610
Shares issued under Phantom Share Unit Plan	6,844	42,364	(42,364)	-	-	-
Share-based compensation	-	-	997,551	-	-	997,551
Dividends paid	-	-	-	-	(2,432,499)	(2,432,499)
Net loss and total comprehensive loss	-	-	-	-	(789,653)	(789,653)
BALANCE, SEPTEMBER 30, 2016	39,038,152	\$ 59,478,289	\$ 37,462,972	\$ -	\$ (142,272,021)	\$ (45,330,760)
Shares issued on options exercised	553,963	3,401,848	(1,088,805)	-	-	2,313,042
Shares issued under Employee Share Purchase Plan	42,329	170,867	-	-	-	170,867
Shares issued under Phantom Share Unit plan	320,301	2,238,842	(2,238,842)	-	-	-
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	(280,100)	(449,848)	-	-	(876,847)	(1,326,694)
Treasury shares repurchased under the Normal Course Issuer Bid	-	-	-	(499,443)	-	(499,443)
Share-based compensation expense	-	-	2,154,700	-	-	2,154,700
Dividends paid	-	-	-	-	(7,044,351)	(7,044,351)
Net loss and total comprehensive loss	-	-	-	-	(4,161,522)	(4,161,522)
BALANCE, JUNE 30, 2017	39,681,749	\$ 64,875,130	\$ 36,254,893	\$ (499,443)	\$ (154,354,741)	\$ (53,724,161)
Shares issued on options exercised	206,375	1,365,891	(264,069)	-	-	1,101,822
Shares issued under Employee Share Purchase Plan	47,616	198,875	-	-	-	198,875
Shares issued under Phantom Share Unit Plan	9,358	54,077	(54,077)	-	-	-
Share-based compensation	-	-	665,077	-	-	665,077
Dividends paid	-	-	-	-	(2,515,853)	(2,515,853)
Net loss and total comprehensive loss	-	-	-	-	(144,417)	(144,417)
BALANCE, SEPTEMBER 30, 2017	39,945,098	\$ 66,493,973	\$ 36,601,824	\$ (499,443)	\$ (157,015,011)	\$ (54,418,657)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Condensed Consolidated Statements of Cash Flows
Three months ended September 30, 2017 and 2016
(Expressed in United States dollars) (Unaudited)

	Notes	2017	2016
OPERATING ACTIVITIES			
Net loss		\$ (144,417)	\$ (789,653)
Items not involving cash			
Amortization of property and equipment		746,696	682,448
Amortization of acquired intangible assets		36,250	50,076
Amortization of intangible assets – contract costs and brand		2,268,274	2,248,610
Share-based compensation	(Note 9(i))	665,077	997,551
Deferred income taxes	(Note 10)	(992,000)	(119,000)
Non-cash interest and amortization of investment premium		-	(46,351)
Change in non-cash working capital			
Trade and other receivables		4,483,236	8,779,838
Prepaid expenses and other		(182,693)	(431,036)
Intangible assets – contract costs and brand additions		(2,034,446)	(1,873,995)
Trade and other payables		(804,383)	(1,666,307)
Income taxes payable		67,494	(3,211,258)
Accrued warranty		(220,000)	30,000
Deferred revenue		(1,827,689)	(2,770,973)
CASH FROM OPERATING ACTIVITIES		2,061,399	1,879,950
INVESTING ACTIVITIES			
Purchase of property and equipment		(916,388)	(2,041,166)
Income taxes paid on disposal of business unit		-	(2,623,890)
CASH USED IN INVESTING ACTIVITIES		(916,388)	(4,665,056)
FINANCING ACTIVITIES			
Dividends paid	(Note 9(h))	(2,515,853)	(2,432,499)
Issuance of common shares	(Note 9(b))	1,272,295	522,022
CASH USED IN FINANCING ACTIVITIES		(1,243,558)	(1,910,477)
FOREIGN EXCHANGE EFFECT ON CASH		(10,039)	65,852
DECREASE IN CASH AND CASH EQUIVALENTS		(108,586)	(4,629,731)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		32,511,093	23,092,852
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 32,402,507	\$ 18,463,121
SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 11)			

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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 months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

3. SHORT-TERM INVESTMENTS

At September 30 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>September 30, 2017</u>	<u>June 30, 2017</u>
Trade receivables	\$ 15,214,964	\$ 19,570,190
Other receivables	57,827	185,837
Allowance for doubtful accounts	<u>(295,155)</u>	<u>(295,155)</u>
	<u>\$ 14,977,636</u>	<u>\$ 19,460,872</u>

At September 30, 2017, 2% of the Company's accounts receivable balance is over 90 days past due (June 30, 2017 – 2%). As at September 30, 2017, 22%, 21%, and 16% (June 30, 2017 - 12%, 33%, and 21%) 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 months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

5. INTANGIBLE ASSETS AND GOODWILL

The following tables summarize intangible asset activity for the three months ended September 30, 2017 and 2016:

	Three months ended September 30, 2017			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,488,531	\$ 1,965,696	\$ (2,206,517)	\$ 13,247,710
Patents and other	51,250	-	(36,250)	15,000
Brand rights – LoJack	254,737	68,750	(61,757)	261,730
Goodwill	1,100,000	-	-	1,100,000
	\$ 14,894,518	\$ 2,034,446	\$ (2,304,524)	\$ 14,624,440

	Three months ended September 30, 2016			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,923,735	\$ 1,811,250	\$ (2,197,082)	\$ 13,537,903
Patents and other	164,327	-	(88,085)	76,242
Brand rights – LoJack	194,200	62,745	(51,528)	205,417
Goodwill	1,100,000	-	-	1,100,000
	\$ 15,382,262	\$ 1,873,995	\$ (2,336,695)	\$ 14,919,562

6. TRADE AND OTHER PAYABLES

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

	September 30, 2017	June 30, 2017
Trade payables	\$ 4,246,433	\$ 3,968,295
Payroll and employee benefits	3,684,739	5,297,262
Deferred share units	1,144,469	982,187
Accrued liabilities	1,023,398	1,382,801
Lease inducements	1,052,814	1,115,480
Sales taxes payable	318,087	333,431
	\$ 11,469,940	\$ 13,079,456

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

7. DEFERRED REVENUE

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

	Three months ended September 30,	
	2017	2016
Balance, beginning of period	\$ 138,402,301	\$ 137,974,162
Billings	21,174,337	19,714,054
Revenue recognized	(22,997,690)	(22,484,864)
Other adjustments	(4,336)	(163)
Balance, end of period	136,574,612	135,203,189
Less: current portion	(71,315,407)	(70,830,587)
	<u>\$ 65,259,205</u>	<u>\$ 64,372,602</u>

8. POST-RETIREMENT BENEFITS AND REORGANIZATION CHARGES

During the three months ended September 30, 2016, the Company reorganized certain functional departments to optimize internal resources. Pursuant to the reorganization, the Company incurred termination benefits amounting to \$856,282. The amounts incurred for each function were follows:

	Three months ended September 30, 2016
Sales and marketing	\$ 407,480
Research and development	301,974
Cost of revenue	107,832
General and administration	38,996
	<u>\$ 856,282</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value

20,000,000 preferred shares, Series A, voting, convertible, redeemable

(b) Issued and outstanding

During the three months ended September 30, 2017, the Company issued 206,375 common shares on exercise of employee stock options for total proceeds of \$1,101,822. An amount of \$264,069 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the three months ended September 30, 2017, the Company issued 47,616 common shares pursuant to its employee share purchase plan for total proceeds of \$198,875.

During the three months ended September 30, 2016, the Company issued 107,875 common shares on exercise of employee stock options for total proceeds of \$413,543. An amount of \$224,390 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the three months ended September 30, 2016, the Company issued 42,126 common shares pursuant to its employee share purchase plan for total proceeds of \$190,610.

During the three months ended September 30, 2016, the Company issued 6,844 common shares pursuant to its Phantom Share Unit ("PhSU") Plan.

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"). During the three months ended September 30, 2017 and 2016, the Company did not repurchase any common shares under the Bids.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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 September 30, 2017, the maximum number of common shares available under the Option Plan was 3,538,328 (June 30, 2017 – 3,992,558), of which 484,606 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. Options 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 three months ended September 30, 2017 and 2016:

	Three months ended September 30,			
	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	387,552	7.46	120,470	7.34
Exercised	(206,375)	6.50	(107,875)	5.00
Forfeited	(75,262)	8.06	(50,475)	7.99
Expired	(13,250)	8.17	(4,625)	7.26
Outstanding, end of period	3,053,722	\$ 7.51	3,676,445	\$ 7.18

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the three months ended September 30, 2017 was \$343,181 (2016 - \$109,663). The weighted average grant date fair value of options granted during the three months ended September 30, 2017 was \$0.90 (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:

	Three months ended September 30,	
	2017	2016
Risk-free interest rate	1.4%	0.6%
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.

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 September 30, 2017, 298,008 PhSUs 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

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

The following table summarizes activity under the PhSU Plan for the three months ended September 30, 2017 and 2016:

	Three months ended	
	September 30,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	118,276	439,558
Granted	1,290	4,503
Released	-	(5,990)
Forfeited	(4,464)	(1,428)
Outstanding, end of period	115,102	436,643

The total fair value of PhSUs granted under the PhSU Plan in the three months ended September 30, 2017 was \$9,262 (2016 - \$33,841). The weighted average grant date fair value of PhSUs granted during the three months ended September 30, 2017 was \$7.18 (2016 - \$7.52). At September 30, 2017, 15,764 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).

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 September 30, 2017, 484,606 common shares were eligible for grant under the PRSU Plan.

In the three months ended September 30, 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.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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 the Board of Directors at the date of grant, and can range from 0% to 200% of the number of units initially granted. The term of the PSU grants is generally three years from the date of grant.

The following table summarizes PSU activity under the PRSU Plan for the three months ended September 30, 2017 and 2016:

	Three months ended September 30,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	122,263	49,811
Granted	83,946	68,359
Adjustment Factor	(3,696)	-
Outstanding, end of period	202,513	118,170

The outstanding PSUs at September 30, 2017 include 38,150 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 three months ended September 30, 2017 was \$493,718 (2016 - \$594,606). The weighted average grant date fair value of PSUs granted during the three months ended September 30, 2017 was \$9.10 (2016 - \$8.77). At September 30, 2017, 10,253 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

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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 term of the RSU grants is three years from the date of grant.

The following table summarizes RSU activity under the PRSU Plan for the three months ended September 30, 2017 and 2016:

	Three months ended	
	September 30,	
	2017	2016
	Number of	Number of
	units	units
Outstanding, beginning of period	636,732	271,415
Granted	430,179	236,788
Released	(9,358)	(851)
Forfeited	(14,558)	(1,892)
Outstanding, end of period	<u>1,042,995</u>	<u>505,460</u>

The outstanding RSUs at September 30, 2017 include 67,376 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 three months ended September 30, 2017 was \$2,530,904 (2016 - \$1,377,656). The weighted average grant date fair value of RSUs granted during the three months ended September 30, 2017 was \$5.98 (2016 - \$5.89). At September 30, 2017, 77,074 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.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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. 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 three months ended September 30, 2017 and 2016:

	Three months ended September 30,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	215,165	104,000
Granted	2,399	-
Outstanding, end of period	217,564	104,000

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the three months ended September 30, 2017 was \$nil (2016 - \$nil). The weighted average grant date fair value of DSUs granted during the three months ended September 30, 2017 was \$nil (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 \$1,144,479 (June 30, 2017 - \$982,187).

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(Expressed in United States dollars) (Unaudited)

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 three months ended September 30, 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 September 30, 2017, 186,598 common shares remained available for grant under the Purchase Plan.

(h) Dividends

In the three months ended September 30, 2017, the Company declared a quarterly dividend 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.

(i) Share-based compensation

The Company's share-based compensation for the three months ended September 30, 2017 and 2016 was comprised as follows:

	Three months ended September 30,	
	2017	2016
Restricted share units	\$ 389,728	\$ 226,709
Deferred share unit plan	162,282	119,780
Stock option plan	135,705	267,892
Performance share units	70,283	62,046
Phantom share unit plan	48,756	304,396
Employee share purchase plan	20,605	16,728
	\$ 827,359	\$ 997,551

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(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

The Company's share-based compensation was attributable to the following areas for the three months ended September 30, 2017 and 2016:

	Three months ended September 30,	
	2017	2016
Cost of revenue	\$ 36,758	\$ 5,266
Sales and marketing	125,636	286,537
Research and development	256,256	219,015
General and administration	408,709	486,733
	\$ 827,359	\$ 997,551

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

For the three months ended September 30, 2017 and 2016, the basic and diluted weighted average number of common shares outstanding was the same. For the three months ended September 30, 2017, there were 1,469,021 potentially dilutive securities (2016 - 1,347,608).

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Three months ended September 30, 2017 and 2016

(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, 2018.

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

	Three months ended September 30,	
	2017	2016
Current income tax expense	\$ (214,000)	\$ (68,000)
Deferred income tax recovery (expense)	472,000	(89,000)
	\$ 258,000	\$ (157,000)

Income tax recovery (expense) for the three months ended September 30, 2017 and 2016 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended September 30,	
	2017	2016
Loss before income taxes	\$ (402,417)	\$ (632,653)
Combined Federal and Provincial income tax rate	26.00%	26.00%
Tax recovery at statutory rate	104,628	164,490
Permanent differences	(167,813)	(169,505)
Foreign losses (income) tax effected at higher rates	24,927	(64,309)
Losses and temporary differences for which no deferred tax asset has been recognized	(393)	(87,676)
Income applied to previously unrecognized tax assets	184,863	-
Amounts over provided for in prior years	111,788	-
Total income tax recovery (expense)	\$ 258,000	\$ (157,000)

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Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

10. INCOME TAXES (Continued)

At September 30, 2017, the Company had total net deferred tax assets of \$23.3 million (June 30, 2017 - \$22.4 million), primarily related to deferred revenue balances, and current income tax receivable of \$15,993 (June 30, 2017 - \$83,487), primarily comprised of tax instalments paid offset by taxes payable in other jurisdictions. In the three months ended September 30, 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 upon 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.

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Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Cash	\$ 18,036,342	\$ 16,189,737
Cash equivalents	14,366,165	16,321,356
	<u>\$ 32,402,507</u>	<u>\$ 32,511,093</u>

Other cash flow information

	<u>Three months ended September 30,</u>	
	<u>2017</u>	<u>2016</u>
<i>Non-cash investing and financing activities</i>		
Accrued purchases of property and equipment	\$ 767,001	\$ 1,053,161

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 September 30,</u>	
	<u>2017</u>	<u>2016</u>
Revenue		
United States	\$ 20,380,253	\$ 19,601,360
Rest of world	2,166,810	2,396,168
Canada	450,627	487,336
	<u>\$ 22,997,690</u>	<u>\$ 22,484,864</u>
	<u>September 30, 2017</u>	<u>June 30, 2017</u>
Long-lived assets		
United States and rest of world	\$ 11,431,157	\$ 11,534,466
Canada	8,900,126	9,664,204
	<u>\$ 20,331,283</u>	<u>\$ 21,198,670</u>

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Three months ended September 30, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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 EVENT

Quarterly dividend

On October 20, 2017, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on November 27, 2017 to shareholders of record at the close of business on November 6, 2017.