

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three months ended September 30, 2016 and 2015

(Unaudited)

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

	Notes	September 30, 2016	June 30, 2016
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 18,463,121	\$ 23,092,852
Short-term investments	(Note 3)	13,686,687	11,637,085
Trade and other receivables	(Note 4)	12,358,513	21,138,351
Prepaid expenses and other		2,810,270	2,379,234
		47,318,591	58,247,522
INVESTMENTS	(Note 3)	10,818,051	12,821,302
PROPERTY AND EQUIPMENT		6,196,788	5,853,222
DEFERRED INCOME TAX ASSETS	(Note 10)	22,472,391	22,353,391
INTANGIBLE ASSETS AND GOODWILL	(Note 5)	14,919,562	15,382,262
		\$ 101,725,383	\$ 114,657,699
LIABILITIES			
CURRENT			
Trade and other payables	(Note 6)	\$ 11,207,175	\$ 13,942,922
Income taxes payable	(Note 10)	155,779	5,990,927
Accrued warranty		490,000	460,000
Deferred revenue – current	(Note 7)	70,830,587	72,464,399
		82,683,541	92,858,248
DEFERRED REVENUE	(Note 7)	64,372,602	65,509,763
		147,056,143	158,368,011
CONTINGENCIES	(Note 13)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 9(b))	59,478,289	58,607,382
Equity reserve		37,462,972	36,732,175
Deficit		(142,272,021)	(139,049,869)
		(45,330,760)	(43,710,312)
		\$ 101,725,383	\$ 114,657,699

SUBSEQUENT EVENT (Note 14)

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on November 7, 2016:

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

(signed) "J. Ian Giffen"
J. Ian Giffen, Director

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

	Notes	2016	2015
REVENUE		\$ 22,484,864	\$ 23,983,081
COST OF REVENUE		3,506,544	3,450,898
GROSS MARGIN		18,978,320	20,532,183
OPERATING EXPENSES			
Sales and marketing	(Note 8)	11,358,589	11,792,277
Research and development		4,356,625	2,998,292
General and administration		2,960,637	2,811,870
Share-based compensation	(Note 9(i))	997,551	1,044,870
		19,673,402	18,647,309
OPERATING (LOSS) INCOME		(695,082)	1,884,874
OTHER INCOME			
Interest income, net		41,939	96,803
Foreign exchange gain (loss)		20,490	(77,348)
		62,429	19,455
NET (LOSS) INCOME BEFORE INCOME TAXES		(632,653)	1,904,329
INCOME TAX EXPENSE	(Note 10)	(157,000)	(890,000)
NET (LOSS) INCOME AND TOTAL COMPREHENSIVE (LOSS) INCOME		\$ (789,653)	\$ 1,014,329
BASIC AND DILUTED (LOSS) INCOME PER SHARE		\$ (0.02)	\$ 0.02
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 9(j))	38,972,290	44,340,918

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	Deficit	Total
BALANCE, JUNE 30, 2015	44,862,344	\$ 59,607,392	\$ 35,322,483	\$ (108,066,367)	\$ (13,136,492)
Shares issued on employee options exercised	54,425	309,456	(112,079)	-	197,377
Shares issued under Employee Share Purchase Plan	67,411	359,596	-	-	359,596
Shares repurchased and cancelled under the Normal Course Issuer Bid	(678,700)	(53,474)	-	(168,796)	(222,270)
Shares committed to be repurchased under the Substantial Issuer Bid	-	(7,684,742)	-	(30,463,035)	(38,147,777)
Share-based compensation	-	-	885,719	-	885,719
Dividends paid	-	-	-	(2,376,782)	(2,376,782)
Net income and total comprehensive income	-	-	-	1,014,329	1,014,329
BALANCE, SEPTEMBER 30, 2015	44,305,480	\$ 52,538,228	\$ 36,096,123	\$ (140,060,651)	\$ (51,426,300)
Shares issued on options exercised	829,625	4,660,383	(1,639,905)	-	3,020,478
Shares issued under Employee Share Purchase Plan	58,450	262,284	-	-	262,284
Shares issued under Phantom Share Unit plan	160,552	1,516,167	(1,100,692)	-	415,475
Shares repurchased and cancelled under the Normal Course Issuer Bid	(222,800)	(368,528)	-	(678,537)	(1,047,065)
Shares committed to be repurchased under the Substantial Issuer Bid	(6,250,000)	(1,152)	-	(140,612)	(141,764)
Share-based compensation	-	-	3,376,649	-	3,376,649
Dividends paid	-	-	-	(6,884,422)	(6,884,422)
Net income and total comprehensive income	-	-	-	8,714,353	8,714,353
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)

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Condensed Consolidated Statements of Cash Flows
Three months ended September 30, 2016 and 2015
(Expressed in United States dollars) (Unaudited)

	Notes	2016	2015
OPERATING ACTIVITIES			
Net (loss) income		\$ (789,653)	\$ 1,014,329
Items not involving cash			
Amortization of property and equipment		682,448	526,103
Amortization of acquired intangible assets		50,076	115,876
Amortization of intangible assets – contract costs and brand		2,248,610	1,894,791
Share-based compensation	(Note 9(i))	997,551	885,719
Deferred income taxes	(Note 10)	(119,000)	(537,000)
Non-cash interest and amortization of investment premium		(46,351)	100,407
Change in non-cash working capital			
Trade and other receivables		8,779,838	8,423,933
Prepaid expenses and other		(431,036)	(32,773)
Intangible assets – contract costs and brand additions		(1,873,995)	(2,608,077)
Trade and other payables		(1,666,307)	(1,263,585)
Income taxes payable		(3,211,258)	(914,592)
Accrued warranty		30,000	40,000
Deferred revenue		(2,770,973)	(2,666,125)
CASH FROM OPERATING ACTIVITIES		1,879,950	4,979,006
INVESTING ACTIVITIES			
Purchase of property and equipment		(2,041,166)	(447,143)
Income taxes paid on disposal of business unit		(2,623,890)	-
CASH USED IN INVESTING ACTIVITIES		(4,665,056)	(447,143)
FINANCING ACTIVITIES			
Dividends paid	(Note 9(h))	(2,432,499)	(2,376,782)
Issuance of common shares	(Note 9(b))	522,022	382,371
Repurchase of common shares for cancellation	(Note 9(b))	-	(4,349,266)
CASH USED IN FINANCING ACTIVITIES		(1,910,477)	(6,343,677)
FOREIGN EXCHANGE EFFECT ON CASH		65,852	(160,903)
DECREASE IN CASH AND CASH EQUIVALENTS		(4,629,731)	(1,972,717)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		23,092,852	44,105,550
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 18,463,121	\$ 42,132,833

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 months ended September 30, 2016 and 2015

(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, 2016.

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, 2016. 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, 2016 and 2015

(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, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

3. SHORT-TERM INVESTMENTS AND INVESTMENTS

The Company's short-term investments are comprised of the following:

	<u>September 30, 2016</u>	<u>June 30, 2016</u>
Investment grade securities	\$ 13,041,338	\$ 10,986,110
Term deposits	645,349	650,975
	<u>\$ 13,686,687</u>	<u>\$ 11,637,085</u>

At September 30 and June 30, 2016, the Company's long-term investments are comprised entirely of investment grade securities. All 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, 2016</u>	<u>June 30, 2016</u>
Trade receivables	\$ 12,194,025	\$ 21,207,490
Other receivables	429,082	196,527
Allowance for doubtful accounts	(264,594)	(265,666)
	<u>\$ 12,358,513</u>	<u>\$ 21,138,351</u>

At September 30, 2016, 5% of the Company's accounts receivable balance is over 90 days past due (June 30, 2016 – 2%). As at September 30, 2016, 22%, 18%, 16%, and 12%, (June 30, 2016 - 12%, 30%, 15%, and 26%) of the receivable balances are owing from four OEM and distributor partners.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(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, 2016 and 2015:

	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

	Three months ended September 30, 2015				
	Carrying amount - opening	Additions	Amortization	Reclassified as held for sale	Carrying amount - ending
Contract costs	\$ 12,323,146	\$ 2,579,903	\$ (1,873,085)	\$ (784,029)	\$ 12,245,935
Software – Palisade	133,333	-	(45,833)	-	87,500
Customer relationships – Palisade	91,666	-	(10,415)	-	81,251
Patents and other	572,748	-	(100,630)	-	472,118
Brand rights – LoJack	81,479	28,174	(21,706)	-	87,947
Goodwill	1,100,000	-	-	-	1,100,000
	\$ 14,302,372	\$ 2,608,077	\$ (2,051,669)	\$ (784,029)	\$ 14,074,751

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

6. TRADE AND OTHER PAYABLES

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

	<u>September 30, 2016</u>	<u>June 30, 2016</u>
Trade payables	\$ 5,297,622	\$ 6,533,633
Payroll and employee benefits	3,081,298	5,484,393
Accrued liabilities	1,200,811	1,595,187
Lease inducements	1,305,039	19,980
Sales taxes payable	322,405	309,729
	<u>\$ 11,207,175</u>	<u>\$ 13,942,922</u>

7. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on billings to invoiced billings, revenue, and other adjustments, for each of our Data and Device Security segment and our Endpoint and Service Management segment:

	<u>Three months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Data and Device Security		
Balance, beginning of period	\$ 137,974,162	\$ 135,316,725
Billings	19,714,054	19,480,575
Revenue recognized	(22,484,864)	(21,295,805)
Other adjustments	(163)	(3,360)
Balance, end of period	<u>135,203,189</u>	<u>133,498,135</u>
Less: current portion	<u>(70,830,587)</u>	<u>(67,878,389)</u>
	<u>\$ 64,372,602</u>	<u>\$ 65,619,746</u>
	<u>Three months ended September 30,</u>	
	<u>2016</u>	<u>2015</u>
Endpoint and Service Management		
Balance, beginning of period	\$ -	\$ 9,394,624
Billings	-	1,839,741
Revenue recognized	-	(2,687,276)
Balance, end of period	<u>-</u>	<u>8,547,089</u>
Less: current portion	<u>-</u>	<u>(8,547,089)</u>
	<u>\$ -</u>	<u>\$ -</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

8. 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 (2015 - \$753,726). The amounts incurred for each function are as follows:

	Three months ended September 30,	
	2016	2015
Sales and marketing	\$ 407,480	\$ 753,726
Research and development	301,974	-
Cost of revenue	107,832	-
General and administration	38,996	-
	<u>\$ 856,282</u>	<u>\$ 753,726</u>

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, 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.

During the three months ended September 30, 2015, the Company issued 54,425 common shares on exercise of employee stock options for total proceeds of \$197,377. An amount of \$112,079 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

During the three months ended September 30, 2015, the Company issued 67,411 common shares pursuant to its employee share purchase plan for total proceeds of \$359,596.

On August 23, 2016, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on August 29, 2016 that enables the Company to purchase and cancel up to 2,643,256 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 19,864 common shares on a daily basis until August 28, 2017, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to August 29, 2016, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids"). Under the Bids, during the three months ended September 30, 2016, the Company did not repurchase any common shares.

(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, 2016, the maximum number of common shares available under the Option Plan was 3,715,872 (June 30, 2016 – 3,904,973), of which 39,427 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.

During the year ended June 30, 2016, the Company's shareholders ratified amendments to the Option Plan. Pursuant to this amendment, 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).

Prior to the amendment, the term of option grants could not exceed 10 years from the date of grant of the option. In addition, generally options were granted with a four year vesting period (25% vesting on each anniversary date), with each tranche expiring two years after each vesting date.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

The following table summarizes activity under the Option Plan for the three months ended September 30, 2016 and 2015:

	Three months ended September 30,			
	2016		2015	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	3,718,950	\$ 7.13	4,202,925	\$ 6.63
Granted	120,470	7.34	85,000	8.10
Exercised	(107,875)	5.00	(54,425)	4.80
Forfeited	(50,475)	7.99	(24,125)	5.66
Expired	(4,625)	7.26	(1,000)	4.10
Outstanding, end of period	3,676,445	\$ 7.18	4,208,375	\$ 6.69

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the three months ended September 30, 2016 was \$109,663 (2015 - \$85,352). The weighted average grant date fair value of options granted during the three months ended September 30, 2016 was \$0.91 (2015 - \$1.00).

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,	
	2016	2015
Risk-free interest rate	0.6%	0.5%
Dividend yield	4.4%	4.0%
Expected life (in years)	4.0	3.8
Volatility	31%	31%

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

(d) Phantom Share Unit Plan

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

During the year ended June 30, 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 and, Performance and Restricted Share Unit Plan, and the Employee Share Purchase Plan. At September 30, 2016, the Company had exceeded this limit by 284,732 PhSUs, which is permissible under certain conditions.

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.

The following table summarizes activity under the PhSU Plan for the three months ended September 30, 2016 and 2015:

	Three months ended September 30,			
	2016		2015	
	Number of units	Grant date fair value	Number of units	Grant date fair value
Outstanding, beginning of period	439,558	\$ 7.50	516,365	\$ 7.60
Granted	4,503	7.52	2,000	6.14
Released	(5,990)	6.89	-	-
Forfeited	(1,428)	6.99	(4,118)	6.99
Outstanding, end of period	436,643	\$ 7.51	514,247	\$ 7.60

The total fair value of PhSUs granted under the PhSU Plan in the three months ended September 30, 2016 was \$33,841 (2015 - \$12,287). The weighted average grant date fair value of PhSUs granted during the three months ended September 30, 2016 was \$7.52 (2015 - \$6.14). At September 30, 2016, 101,590 of the outstanding PhSUs had vested.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

(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 the year ended June 30, 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 September 30, 2016, 39,427 common shares were eligible for grant under the PRSU Plan.

In addition, 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.

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 three years from the date of grant.

The following table summarizes PSU activity under the PRSU Plan for the three months ended September 30, 2016 and 2015:

	Three months ended September 30,	
	2016	2015
	Number of units	Number of units
Outstanding, beginning of period	49,811	-
Granted	68,359	-
Outstanding, end of period	118,170	-

The outstanding PSUs at September 30, 2016 include 40,000 units that were issued pursuant to the Market PRSU Plan.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

Fair values – Performance Share Units

The total fair value of PSUs granted under the PRSU Plan in the three months ended September 30, 2016 was \$594,606 (2015 - \$nil). The weighted average grant date fair value of PSUs granted during the three months ended September 30, 2016 was \$8.77 (2015 - \$nil). At September 30, 2016, none 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.

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, 2016 and 2015:

	Three months ended	
	September 30,	
	2016	2015
	Number of	Number of
	units	units
Outstanding, beginning of period	271,415	-
Granted	236,788	-
Released	(851)	-
Forfeited	(1,892)	-
Outstanding, end of period	505,460	-

The outstanding RSUs at September 30, 2016 include 51,567 units that were issued pursuant to the Market PRSU Plan.

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Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

Fair values – Restricted Share Units

The total fair value of RSUs granted under the PRSU Plan in the three months ended September 30, 2016 was \$1,377,656 (2015 - \$nil). The weighted average grant date fair value of RSUs granted during the three months ended September 30, 2016 was \$5.89 (2015 - \$nil). At September 30, 2016, none 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.

(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 the year ended June 30, 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 three months ended September 30, 2016 and 2015:

	Three months ended September 30,	
	2016	2015
	Number of units	Number of units
Outstanding, beginning and end of period	104,000	-

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9. SHARE CAPITAL (Continued)

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the three months ended September 30, 2016 was \$nil (2015 - \$nil). The weighted average grant date fair value of DSUs granted during the three months ended September 30, 2016 was \$nil (2015 - \$nil). The fair value owing was marked to market at September 30, 2016, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$163,278 (September 30, 2015 - \$nil).

(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, 2016, 42,126 common shares (2015 – 67,411 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$4.24 (2015 - \$5.53) per share.

At September 30, 2016, 324,159 common shares remained available for grant under the Purchase Plan.

(h) Dividends

In the three months ended September 30, 2016, 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 5, 2016.

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Notes to the Condensed Consolidated Financial Statements

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9. SHARE CAPITAL (Continued)

(i) *Share-based compensation*

The Company's share-based compensation for the three months ended September 30, 2016 and 2015 was comprised as follows:

	Three months ended	
	September 30,	
	2016	2015
Phantom share unit plan	\$ 304,396	\$ 570,770
Stock option plan	267,892	439,388
Restricted share units	226,709	-
Deferred share unit plan	119,780	-
Performance share units	62,046	-
Employee share purchase plan	16,728	34,712
	\$ 997,551	\$ 1,044,870

The Company's share-based compensation was attributable to the following areas for the three months ended September 30, 2016 and 2015:

	Three months ended	
	September 30,	
	2016	2015
Cost of revenue	\$ 5,266	\$ 56,817
Sales and marketing	286,537	262,043
Research and development	219,015	263,742
General and administration	486,733	462,268
	\$ 997,551	\$ 1,044,870

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

For the three months ended September 30, 2016, the basic and diluted weighted average number of common shares outstanding was the same, and there were 1,347,608 potentially dilutive securities. For the three months ended September 30, 2015, the diluted weighted average number of common shares was 45,708,956.

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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, 2016.

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

	Three months ended September 30,	
	2016	2015
Current income tax expense	\$ (68,000)	\$ (1,501,000)
Deferred income tax (expense) recovery	(89,000)	611,000
	<u>\$ (157,000)</u>	<u>\$ (890,000)</u>

Income tax expense for the three months ended September 30, 2016 and 2015 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended September 30,	
	2016	2015
(Loss) income before income taxes	\$ (632,653)	\$ 1,904,329
Combined Federal and Provincial income tax rate	26.00%	26.00%
Tax recovery (expense) at statutory rate	164,490	(495,126)
Permanent differences	(169,505)	(185,812)
Foreign income tax effected at higher rates	(64,309)	(210,077)
Losses and temporary differences for which no deferred tax asset has been recognized	(87,676)	-
Income applied to previously unrecognized tax assets	-	1,015
Total income tax expense	<u>\$ (157,000)</u>	<u>\$ (890,000)</u>

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Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

10. INCOME TAXES (Continued)

At September 30, 2016, the Company had total net deferred tax assets of \$22.5 million (June 30, 2016 - \$22.4 million), primarily related to deferred revenue balances, and current income taxes payable of \$155,779 (June 30, 2016 - \$5,990,927). In the three months ended September 30, 2016 and 2015, 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, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

At September 30 and June 30, 2016, cash and cash equivalents were comprised entirely of cash.

Other cash flow information

	Three months ended September 30,	
	2016	2015
<i>Non-cash investing and financing activities</i>		
Accrued purchases of property and equipment	\$ 1,053,161	\$ 28,469

12. SEGMENTED INFORMATION

(a) Operating Segments

The Company and its subsidiaries have historically operated primarily in one principal business, that being development, marketing, and support of endpoint security and data risk management, and endpoint management solutions for computing devices such as desktops, laptops, tablets and smartphones.

On July 1, 2015, the Company reorganized its internal information reported to the chief operating decision maker for the purposes of resource allocation and assessment of operational performance. This reorganization focused on the bifurcation of two markets in which the Company's products participate, namely, a) Data and Device Security and b) Endpoint and Service Management. As a result, the Company now operates in these two operating segments.

The divestiture of the Absolute Manage and Absolute Service business unit on October 5, 2015 eliminated the Endpoint and Service Management segment.

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Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

12. SEGMENTED INFORMATION (continued):

The Company's revenue, results, and other segment information is as follows:

	Three months ended September 30, 2016		
	Data and Device Security	Endpoint and Service Management	Consolidated
Revenue from external sources	\$ 22,484,864	\$ -	\$ 22,484,864
Operating expenses	(22,447,422)	-	(22,447,422)
Depreciation and amortization	(732,524)	-	(732,524)
Interest income, net	41,939	-	41,939
Foreign exchange gain	20,490	-	20,490
Loss before income taxes	(632,653)	-	(632,653)
Provision for income taxes	(157,000)	-	(157,000)
Net loss	\$ (789,653)	\$ -	\$ (789,653)

	Three months ended September 30, 2015		
	Data and Device Security	Endpoint and Service Management	Consolidated
Revenue from external sources	\$ 21,295,805	\$ 2,687,276	\$ 23,983,081
Operating expenses	(19,907,371)	(1,664,733)	(21,572,104)
Depreciation and amortization	(526,103)	-	(526,103)
Interest income, net	96,803	-	96,803
Foreign exchange loss	(77,348)	-	(77,348)
Income before income taxes	881,786	1,022,543	1,904,329
Provision for income taxes	-	-	(890,000)
Net income	\$ 881,786	\$ 1,022,543	\$ 1,014,329

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Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2016 and 2015

(Expressed in United States dollars) (Unaudited)

12. SEGMENTED INFORMATION (continued):

(b) *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.

	Three months ended September 30,	
	2016	2015
Revenue		
United States	\$ 19,601,360	\$ 19,374,718
Rest of world	2,396,168	2,799,417
Canada	487,336	1,808,946
	<u>\$ 22,484,864</u>	<u>\$ 23,983,081</u>
	September 30, 2016	June 30, 2016
Long-lived assets		
United States and rest of world	\$ 11,828,398	\$ 12,239,412
Canada	9,287,952	8,996,072
	<u>\$ 21,116,350</u>	<u>\$ 21,235,484</u>

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, 2016, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on November 25, 2016 to shareholders of record at the close of business on November 4, 2016.