Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and six months ended December 31, 2018 and 2017

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Financial Position

(Expressed in United States dollars) (Unaudited)

	Notes	December 31, 2018	June 30, 2018
ASSETS			
CURRENT			
Cash and cash equivalents		**$ 33,838,701**	$ 33,956,988
Short-term investments		**372,316**	372,316
Trade and other receivables	(Note 3)	**11,277,046**	17,302,871
Income tax receivable	(Note 8)	**338,294**	345,228
Prepaid expenses and other		**2,235,465**	2,455,977
Contract acquisition assets – current	(Note 4)	**6,940,422**	6,810,142
		55,002,244	61,243,522
PROPERTY AND EQUIPMENT		**5,161,887**	5,962,829
DEFERRED INCOME TAX ASSETS	(Note 8)	**23,610,605**	23,318,605
CONTRACT ACQUISITION ASSETS	(Note 4)	**5,370,862**	5,405,987
GOODWILL		**1,100,000**	1,100,000
		$ 90,245,598	$ 97,030,943
LIABILITIES			
CURRENT			
Trade and other payables	(Note 5)	**$ 13,682,691**	$ 13,676,397
Income taxes payable	(Note 8)	**24,100**	407,226
Accrued warranty		**190,000**	270,000
Deferred revenue – current	(Note 7)	**74,329,344**	75,325,574
		88,226,135	89,679,197
DEFERRED REVENUE	(Note 7)	**57,326,556**	63,861,112
		145,552,691	153,540,309
CONTINGENCIES	(Note 11)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 6(b))	**70,725,845**	68,362,445
Equity reserve		**37,701,562**	36,972,197
Treasury shares	(Note 6(j))	**(359,973)**	(359,973)
Deficit		**(163,374,527)**	(161,484,035)
		(55,307,093)	(56,509,366)
		$ 90,245,598	$ 97,030,943

SUBSEQUENT EVENTS (Note 12)

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on January 31, 2019:

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

(signed) "Eric Rosenfeld"
Eric Rosenfeld, Director

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)

Three and six months ended December 31, 2018 and 2017
(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended December 31, 2018	Three months ended December 31, 2017	Six months ended December 31, 2018	Six months ended December 31, 2017
REVENUE		**$ 24,446,301**	$ 23,212,319	**$ 48,749,866**	$ 46,210,009
COST OF REVENUE		**3,179,779**	3,652,728	**6,468,183**	7,215,495
GROSS MARGIN		**21,266,522**	19,559,591	**42,281,683**	38,994,514
OPERATING EXPENSES					
Sales and marketing		**9,103,064**	10,058,197	**18,728,264**	20,448,778
Research and development		**4,466,077**	4,915,532	**9,492,483**	10,331,785
General and administration		**4,096,060**	3,000,526	**7,207,063**	6,123,976
Share-based compensation	(Note 6(i))	**1,189,284**	375,641	**2,508,809**	1,203,000
		18,854,485	18,349,896	**37,936,619**	38,107,539
OPERATING INCOME		**2,412,037**	1,209,695	**4,345,064**	886,975
OTHER (EXPENSE) INCOME					
Interest income, net		**71,646**	14,299	**147,328**	20,632
Foreign exchange loss		**(74,725)**	(24,216)	**(113,763)**	(110,246)
		(3,079)	(9,917)	**33,565**	(89,614)
NET INCOME BEFORE INCOME TAXES		**2,408,958**	1,199,778	**4,378,629**	797,361
INCOME TAX EXPENSE	(Note 8)	**(646,000)**	(1,549,000)	**(1,352,000)**	(1,291,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		**$ 1,762,958**	$ (349,222)	**$ 3,026,629**	$ (493,639)
BASIC AND DILUTED INCOME (LOSS) PER SHARE		**$ 0.04**	$ (0.01)	**$ 0.07**	$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 6(k))	**40,483,250**	39,993,620	**40,394,608**	39,888,593

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
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	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)
BALANCE, DECEMBER 31, 2017	**40,057,779**	**$ 67,182,623**	**$ 36,571,727**	**$ (499,443)**	**$ (159,871,233)**	**$ (56,616,326)**
Shares issued on options exercised	73,625	491,979	(188,438)	-	-	303,541
Shares issued under Employee Share Purchase Plan	51,861	241,839	-	-	-	241,839
Shares issued under Phantom Share Unit Plan	12,966	79,182	(79,182)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	77,800	440,003	(588,655)	139,470	-	(9,182)
Shares repurchased and cancelled under the Normal Course Issuer Bid	(49,800)	(73,181)	-	-	(172,242)	(245,423)
Share-based compensation	-	-	1,256,745	-	-	1,256,745
Dividends paid	-	-	-	-	(5,045,052)	(5,045,052)
Net income and total comprehensive income	-	-	-	-	3,604,492	3,604,492
BALANCE, JUNE 30, 2018	**40,224,231**	**$ 68,362,445**	**$ 36,972,197**	**$ (359,973)**	**$ (161,484,035)**	**$ (56,509,366)**
Shares issued on options exercised	145,475	974,560	(240,190)	-	-	734,370
Shares issued under Employee Share Purchase Plan	45,616	202,653	-	-	-	202,653
Shares issued under Phantom Share Unit Plan	7,872	43,646	(43,646)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	210,903	1,142,541	(1,142,541)	-	-	-
Share-based compensation	-	-	2,155,742	-	-	2,155,742
Dividends paid	-	-	-	-	(4,917,121)	(4,917,121)
Net income and total comprehensive income	-	-	-	-	3,026,629	3,026,629
BALANCE, DECEMBER 31, 2018	**40,634,097**	**$ 70,725,845**	**$ 37,701,562**	**$ (359,973)**	**$ (163,374,527)**	**$ (55,307,093)**

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, 2018 and 2017
(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2018	2017	**2018**	2017
OPERATING ACTIVITIES					
Net income (loss)		**$ 1,762,958**	$ (349,222)	**$ 3,026,629**	$ (493,639)
Items not involving cash					
Amortization of property and equipment		**884,013**	793,455	**1,770,459**	1,540,151
Amortization of intangible assets		**-**	11,250	**-**	47,500
Amortization of contract acquisition assets	(Note 4)	**2,296,762**	2,294,491	**4,524,565**	4,562,765
Share-based compensation	(Note 6(i))	**1,189,284**	338,035	**2,508,809**	1,003,112
Deferred income taxes	(Note 8)	**(207,000)**	925,000	**(292,000)**	(67,000)
Change in non-cash working capital					
Trade and other receivables		**922,692**	737,414	**6,025,825**	5,220,650
Income tax receivable		**(40,105)**	88,281	**6,934**	155,775
Prepaid expenses and other		**249,902**	479,158	**220,512**	296,465
Contract acquisition assets incurred		**(2,944,771)**	(1,990,064)	**(4,619,720)**	(4,024,510)
Trade and other payables		**2,273,672**	90,409	**737,630**	(713,974)
Income tax payable		**(15,262)**	-	**(383,126)**	-
Accrued warranty		**(10,000)**	10,000	**(80,000)**	(210,000)
Deferred revenue		**(4,435,474)**	(232,958)	**(7,530,786)**	(2,060,647)
CASH FROM OPERATING ACTIVITIES		**1,926,671**	3,195,249	**5,915,731**	5,256,648
INVESTING ACTIVITIES					
Purchase of property and equipment		**(459,705)**	(348,902)	**(1,880,572)**	(1,265,290)
CASH USED IN INVESTING ACTIVITIES		**(459,705)**	(348,902)	**(1,880,572)**	(1,265,290)
FINANCING ACTIVITIES					
Dividends paid	(Note 6(h))	**(2,443,723)**	(2,506,999)	**(4,917,121)**	(5,022,852)
Issuance of common shares	(Note 6(b))	**676,724**	331,525	**871,179**	1,603,820
CASH USED IN FINANCING ACTIVITIES		**(1,766,999)**	(2,175,474)	**(4,045,942)**	(3,419,032)
FOREIGN EXCHANGE EFFECT ON CASH		**(104,485)**	(5,900)	**(107,504)**	(15,939)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(404,518)**	664,973	**(118,287)**	556,387
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		**34,243,219**	32,402,507	**33,956,988**	32,511,093
CASH AND CASH EQUIVALENTS, END OF PERIOD		**$ 33,838,701**	$ 33,067,480	**$ 33,838,701**	$ 33,067,480

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 9)

See accompanying notes to the Condensed Consolidated Financial Statements.

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 activity is the development, marketing and delivery of endpoint security and data risk management solutions to commercial, healthcare, education and government customers. The Company's principal solution is the Absolute Platform, a software-as-a-service solution which enables customers to secure endpoints, assess risk, and respond to security threats. The Company's solutions are powered by its proprietary and patented Persistence technology. The Company markets its solutions through device original equipment manufacturers ("OEMs"), distributors, value added resellers, and directly to its customers, who include corporations, government entities, educational institutions, and consumers. While the majority of the Company's sales are generated in North America, the Company's products are also available internationally through resellers in Europe, Australia, South Africa, South America, as well as the Asia Pacific and Latin American regions. The Company's head office and principal address is Suite 1400, Four Bentall Centre, 1055 Dunsmuir Street, PO Box 49211, 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, 2018, with the exception of the adoption of new accounting standards (Note 2(d)).

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, 2018. 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.

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 Accounting Standards

Standards Adopted in Fiscal 2019

IFRS 9 – *"Financial Instruments"* ("IFRS 9")

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 *"Financial Instruments – Recognition and Measurement*" for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely. In addition, IFRS 9 added a single, forward-looking "expected loss" impairment model for financial assets, including trade receivables, which means it is no longer necessary for a triggering event to occur before an impairment loss is recognized. Under IFRS 9, credit losses are recognized earlier than under IAS 39.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

The Company has adopted IFRS 9 retrospectively. As a result of the adoption of IFRS 9, there were no changes to the original measurement categories for each class of the Company's financial assets. These changes in accounting policies, and the adoption of the expected loss impairment model, did not have a material impact on the Company's financial performance or its financial position.

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 completed its implementation plan and has adopted IFRS 15 in its financial statements for the annual period beginning on July 1, 2018.

The impact of the adoption of IFRS 15 on reported revenue results was not material. Based on its analysis, the Company has determined that its customer contracts currently accounted for ratably over the term of the subscription meet the requirements for revenue recognition over time under IFRS 15, and as a result, the Company will continue to recognize subscription term revenues ratably over their term. There have been no material adjustments relating to the application of other aspects of IFRS 15.

The Company applied the provisions of IFRS 15 retrospectively, and did not utilize any transitional practical expedients in the application of IFRS 15.

Revenue Recognition Policy

The Company operates a cloud-based customer console, which leverages patented embedded self-healing Persistence technology residing on a customer's endpoint computing devices. The customer console allows a client to maintain visibility and control over its endpoints, and includes features such as reporting and analytics, geotechnology, risk assessment, risk response, and endpoint investigation and recovery. The Company provides access to the customer console to its clients on a subscription basis.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company principally derives its revenues from two sources: subscription and support revenues, which are comprised of subscription fees from customers accessing the Company's enterprise cloud computing services (collectively, "Cloud Services"); and related professional services such as project implementation and other short-term consulting services, in addition to longer-term services such as device lifecycle and technical account management services. Cloud Services revenue subscriptions are typically for terms ranging between one and five years. Other revenue consists primarily of ancillary business lines such as our consumer and digital subscriber management products.

With the adoption of IFRS 15, revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration the Company expects to receive in exchange for those products or services. If the consideration promised in a contract includes a variable amount, for example, contingent fees or service level penalties, the Company includes an estimate of the amount it expects to receive for the total transaction price if it is probable that a significant reversal of cumulative revenue recognized will not occur.

The Company determines the amount of revenue to be recognized through application of the following steps:

- Identification of the contract, or contracts with a customer;
- Identification of the performance obligations in the contract;
- Determination of the transaction price;
- Allocation of the transaction price to the performance obligations in the contract; and
- Recognition of revenue when or as the Company satisfies the performance obligations.

The Company obtains the majority of its customer arrangements through OEM and reseller partners, most of which are in North America. All revenues are recorded at the net amount received from the reseller, provided that all significant contractual obligations have been satisfied. For direct sales, revenues are recorded at the amount received from the end customer.

The Company's subscription service arrangements are non-cancelable and do not contain refund-type provisions.

(a) Subscription and Support Revenues

Subscription and support revenues are comprised of fees that provide customers with access to Cloud Services, software licenses and related support and updates during the term of the arrangement.

Cloud Services arrangements allow customers to use the Company's hosted software without taking possession of the software. Revenue is generally recognized ratably over the contract term.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company typically invoices its reseller partners upon execution of the contract and fulfillment of services to the end customer. The Company typically executes a new contract for subsequent renewals or follow on orders. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue, provided services have been fulfilled and the contractual service term has commenced.

(b) Professional Services and Other Revenues

The Company's professional services contracts are generally on either a fixed fee or subscription basis. These revenues are recognized on a proportional performance basis for fixed price contracts, and ratably over the contract term for subscription managed professional services contracts.

Revenues for our consumer products are generally recognized on a subscription fee basis as described above under "Subscription and Support Revenues". Revenues for our digital subscriber management products are typically recognized in arrears pursuant to the terms of those arrangements.

Significant Judgments - Contracts with Multiple Performance Obligations

The Company enters into contracts with its customers that may include promises to transfer multiple Cloud Services and professional services. A performance obligation is a commitment in a contract with a customer to transfer products or services that are distinct. Determining whether products and services are distinct performance obligations that should be accounted for separately or combined as one unit of accounting may require significant judgment.

Cloud Services are distinct as such services are often sold separately. In determining whether professional services are distinct, the Company considers the following factors for each type of professional services agreement: the availability of the services from other vendors; the nature of the professional services; the timing of when the professional services contract was signed in comparison to the start date of any related Cloud Services; and the contractual dependence of the professional services on the Cloud Services.

The Company allocates the transaction price to each distinct performance obligation on a relative standalone selling price ("SSP") basis. The SSP is the price at which the Company would sell a promised product or service separately to a customer. Judgment is required to determine the SSP for each distinct performance obligation.

The Company determines SSP by considering its overall pricing objectives and market conditions. Significant pricing practices taken into consideration include the Company's discounting practices, the size and volume of the Company's transactions, the customer demographic, the geographic area where services are sold, price lists, its go-to-market strategy, historical sales and contract prices. As the Company's go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In certain cases, the Company is able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Company uses a single amount to estimate SSP when it has observable prices.

If SSP is not directly observable, for example when pricing is highly variable, the Company uses a range of SSP. The Company determines the SSP range using information that may include market conditions or other observable inputs. The Company may have more than one SSP for individual products and services due to the stratification of those products and services by customer size, geography, and the other factors noted above.

Contract Acquisition Assets

IFRS 15 requires that incremental costs of obtaining sales contracts are capitalized and amortized.

Prior to adoption of IFRS 15, the Company capitalized these costs as deferred contract costs, which formed part of intangible assets, and amortized them over the weighted average term of the sales contracts acquired related to the payments. As a result of the adoption of IFRS 15, these costs are now presented as separate current and non-current assets in the consolidated statement of financial position. The provisions of IFRS 15 are more prescriptive than the previous provisions related to accounting for deferred commissions, and require that costs incurred to acquire new customer contracts are amortized over the estimated period of benefit, including renewal periods, unless additional costs are anticipated to be incurred to obtain renewal contracts and those costs are commensurate with the costs incurred to obtain the contract originally. As the Company incurs additional incremental costs to renew its sales contracts, and those costs are commensurate with the costs incurred to obtain a contract originally, the Company's accounting practices and amortization periods will remain unchanged.

The capitalized amounts consist primarily of sales commissions paid to the Company's direct and indirect sales force. Capitalized amounts also include: amounts paid to employees other than the sales force who earn incentive payouts under annual compensation plans that are tied to the value of contracts acquired; the associated payroll taxes associated with the payments to the Company's employees; costs incurred under a branding agreement with a third party; and to a lesser extent, success fees paid to partners in emerging markets where the Company has a limited presence.

As noted above, contract acquisition assets are amortized on a straight-line basis commensurate with the average term of the contracts acquired related to the payments made. The capitalized amounts are recoverable through future revenue streams under all non-cancelable customer contracts. The Company periodically evaluates whether there have been any changes in its business, the market conditions in which it operates or other events which would indicate that its amortization period should be changed or if there are potential indicators of impairment.

Amortization of contract acquisition assets is included in sales and marketing expense in the condensed consolidated statement of operations.

(Expressed in United States dollars) (Unaudited)

3. TRADE AND OTHER RECEIVABLES

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

	December 31, 2018	June 30, 2018
Trade receivables	**$ 11,173,100**	$ 17,168,774
Other receivables	**386,265**	416,464
Allowance for doubtful accounts	**(282,319)**	(282,367)
	$ 11,277,046	$ 17,302,871

At December 31, 2018, 4% of the Company's accounts receivable balance is over 90 days past due (June 30, 2018 – 4%). As at December 31, 2018, 40%, 21%, and 13% (June 30, 2018 - 32%, 30%, and 10%) of the receivable balances are owing from three OEM and distributor partners. At June 30, 2018, a fourth partner represented 10%.

4. CONTRACT ACQUISITION ASSETS

The following table provides a reconciliation of contract acquisition assets for the six months ended December 31, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
Balance, beginning of period	**$ 12,216,130**	$ 13,743,268
Contract acquisition costs incurred	**4,619,719**	4,024,510
Amortization	**(4,524,565)**	(4,562,765)
Balance, end of period	**12,311,284**	13,205,013
Less: current portion	**(6,940,422)**	(7,162,293)
	$ 5,370,862	$ 6,042,720

(Expressed in United States dollars) (Unaudited)

5. TRADE AND OTHER PAYABLES

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

	December 31, 2018	June 30, 2018
Payroll and employee benefits	**$ 5,522,276**	$ 4,894,340
Trade payables	**4,286,563**	5,108,414
Deferred share units	**1,503,262**	1,702,748
Accrued liabilities	**1,329,509**	804,198
Lease inducements	**751,965**	876,055
Sales taxes payable	**289,116**	290,642
	$ 13,682,691	$ 13,676,397

6. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value

(b) Issued and outstanding

During the six months ended December 31, 2018, the Company issued 145,475 common shares on exercise of employee stock options for total proceeds of $734,370. An amount of $240,190 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, 2018, the Company issued 45,616 common shares pursuant to its employee share purchase plan for total proceeds of $202,653.

During the six months ended December 31, 2018, the Company issued 7,872 common shares pursuant to its Phantom Share Unit Plan with a value of $43,646.

During the six months ended December 31, 2018 the Company issued 210,903 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a value of $1,142,541.

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.

6. SHARE CAPITAL (Continued)

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, 2017, the Company issued 29,443 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a value of $162,819.

On September 25, 2018, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on September 28, 2018 that enables the Company to purchase and cancel up to 1,933,375 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 12,224 common shares on a daily basis until September 27, 2019, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to September 28, 2018, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids"). During the three and six months ended December 31, 2018 and 2017, the Company did not repurchase any common shares under the Bids.

(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, Performance and Restricted Share Unit Plan and Employee Share Purchase Plan. On this basis, at December 31, 2018, the maximum number of common shares available under the Option Plan was 2,915,578 (June 30, 2018 – 3,660,468), of which 968,777 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).

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

The following table summarizes activity under the Option Plan for the six months ended December 31, 2018 and 2017:

	Six months ended December 31,			
	2018		2017	
	Number of options	**Weighted average exercise price (CAD)**	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	**2,310,376**	**$ 7.21**	2,961,057	$ 7.46
Granted	**-**	**-**	474,002	7.37
Exercised	**(145,475)**	**6.71**	(261,125)	6.34
Forfeited	**(78,100)**	**7.74**	(281,704)	8.82
Expired	**(140,000)**	**7.99**	(18,250)	7.58
Outstanding, end of period	**1,946,801**	**$ 7.17**	2,873,980	$ 7.42

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the six months ended December 31, 2018 was $nil (2017 - $415,254). The weighted average grant date fair value of options granted during the six months ended December 31, 2018 was $nil (2017 - $0.89).

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,	
	2018	2017
Risk-free interest rate	**-**	1.4%
Dividend yield	**-**	4.3%
Expected life (in years)	**-**	3.8
Volatility	**-**	29%

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

(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. The PhSU Plan lapsed on December 8, 2017, and as such, at December 31, 2018, there are no common shares eligible for grant under this plan, except as related to units issued pursuant to dividend equivalents accruing to the existing unitholders.

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 six months ended December 31, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	**19,294**	118,275
Granted	**417**	2,554
Released	**(7,872)**	(37,846)
Forfeited	**(5)**	(51,284)
Outstanding, end of period	**11,834**	31,699

The total fair value of PhSUs granted under the PhSU Plan in the six months ended December 31, 2018 was $2,915 (2017 - $18,352). The weighted average grant date fair value of PhSUs granted during the six months ended December 31, 2018 was $6.99 (2017 - $7.52). At December 31, 2018, all of the outstanding PhSUs had vested.

(Expressed in United States dollars) (Unaudited)

6. 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 2018, 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, the PhSU Plan and the Employee Share Purchase Plan. On this basis, at December 31, 2018, 2,780,720 (June 30, 2018 – 2,497,240) common shares were eligible for grant under the PRSU Plan, of which 968,777 remained available for grant thereunder.

In addition, the Company has 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 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 PSU 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, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	**49,693**	122,263
Granted	**247,028**	86,265
Forfeited	**(5,503)**	(35,382)
Outstanding, end of period	**291,218**	173,146

None of the outstanding PSUs at December 31, 2018 were issued pursuant to the Market PRSU Plan.

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

Fair values – Performance Share Units

The total fair value of PSUs granted under the PRSU Plan in the six months ended December 31, 2018 was $1,187,334 (2017 - $732,544). The weighted average grant date fair value of PSUs granted during the six months ended December 31, 2018 was $4.83 (2017 - $8.77). At December 31, 2018, none of the outstanding PSUs had vested.

The Adjustment Factors related to the PSUs issued and outstanding are related to market-based performance conditions and, and some cases, to company-specific performance conditions. 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 and Company performance 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 the grant.

The following table summarizes RSU activity under the PRSU Plan for the six months ended December 31, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	**1,111,359**	636,732
Granted	**751,868**	514,137
Released	**(210,903)**	(29,443)
Forfeited	**(117,416)**	(95,061)
Expired	**-**	(1,708)
Outstanding, end of period	**1,534,908**	1,024,657

The outstanding RSUs at December 31, 2018 include 14,183 units that were issued pursuant to the Market PRSU Plan.

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

Fair values – Restricted Share Units

The total fair value of RSUs granted under the PRSU Plan in the six months ended December 31, 2018 was $4,346,594 (2017 - $2,955,412). The weighted average grant date fair value of RSUs granted during the six months ended December 31, 2018 was $5.95 (2017 - $5.84). At December 31, 2018, 276,233 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. 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, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
	Number of units	Number of units
Outstanding, beginning of period	**351,418**	208,000
Granted	**7,072**	24,625
Released	**(89,580)**	-
Forfeited	**(3,625)**	-
Outstanding, end of period	**265,285**	232,625

6. SHARE CAPITAL (Continued)

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the six months ended December 31, 2018 was $40,098 (2017 - $68,844). The weighted average grant date fair value of DSUs granted during the six months ended December 31, 2018 was $5.67 (2017 - $5.48). The fair value owing was marked to market at December 31, 2018, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was $1,503,262 (June 30, 2018 - $1,702,748).

(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, 2018, 45,616 common shares (2017 – 47,616 common shares) were issued from treasury under the Purchase Plan at a weighted average price of $4.44 (2017 - $4.18) per share.

At December 31, 2018, 136,737 common shares remained available for grant under the Purchase Plan.

(h) Dividends

In the six months ended December 31, 2018, 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 23, 2018 and November 26, 2018.

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

(i) Share-based compensation

The Company's share-based compensation for the three and six months ended December 31, 2018 and 2017 was comprised as follows:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Restricted share units	**$ 938,197**	$ 579,643	**$ 1,749,497**	$ 969,370
Performance share units	**90,139**	61,322	**138,714**	131,605
Stock option plan	**75,902**	777	**207,769**	136,482
Employee share purchase plan	**35,115**	21,855	**53,125**	42,460
Deferred share unit plan	**47,766**	(37,608)	**353,066**	124,674
Phantom share unit plan	**2,165**	(250,348)	**6,638**	(201,591)
	$ 1,189,284	$ 375,641	**$ 2,508,809**	$ 1,203,000

The Company's share-based compensation was attributable to the following areas for the three and six months ended December 31, 2018 and 2017:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Cost of revenue	**$ 70,061**	$ 66,147	**$ 132,945**	$ 102,905
Sales and marketing	**405,103**	292,519	**708,762**	418,155
Research and development	**310,893**	(308,725)	**611,435**	(52,469)
General and administration	**403,227**	325,700	**1,055,667**	734,409
	$ 1,189,284	$ 375,641	**$ 2,508,809**	$ 1,203,000

(j) Treasury shares

During 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. These treasury shares were purchased in order to fund the Company's Market PRSU Plan (note 6(e)). In the year ended June 30, 2018, 28,903 treasury shares were used to settle PSUs and RSUs released pursuant to the Market PRSU Plan. As a result, at December 31, 2018, the Company held 75,664 treasury shares with a value of $359,973.

(Expressed in United States dollars) (Unaudited)

6. SHARE CAPITAL (Continued)

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

For the three and six months ended December 31, 2018, the fully diluted number of shares was 40,483,250 and 40,394,608, respectively. For the three and six months ended December 31, 2017, the basic and diluted weighted average number of common shares outstanding was the same, and there were 1,326,058 and 1,333,421 potentially dilutive securities, respectively.

7. REVENUE

(a) Disaggregated revenue

The table below provides a disaggregation of our overall revenues for the three and six months ended December 31, 2018 and 2017:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Cloud Services	**$ 22,499,250**	$ 21,378,962	**$ 44,811,888**	$ 42,504,385
Managed professional services	**887,746**	679,288	**1,758,211**	1,314,955
	23,386,996	22,058,250	**46,570,099**	43,819,340
Professional services	**221,240**	332,141	**448,016**	646,924
Other	**838,065**	821,928	**1,731,751**	1,743,745
	$ 24,446,301	$ 23,212,319	**$ 48,749,866**	$ 46,210,009

(Expressed in United States dollars) (Unaudited)

7. REVENUE (continued)

(b) Deferred revenue

The following table provides a reconciliation of deferred revenue balances to invoiced billings, revenue, and other adjustments for the six months ended December 31, 2018 and 2017:

	Six months ended December 31,	
	2018	2017
Balance, beginning of period	**$ 139,186,686**	$ 138,402,301
Billings	**41,219,080**	44,152,211
Revenue recognized	**(48,749,866)**	(46,210,009)
Other adjustments	**-**	(2,849)
Balance, end of period	**131,655,900**	136,341,654
Less: current portion	**(74,329,344)**	(71,540,962)
	$ 57,326,556	$ 64,800,692

In the six months ended December 31, 2018, revenue recognized included $43,007,516 (2017 – $46,210,009) that was included in deferred revenue at the beginning of the period.

The Company's deferred revenue is scheduled to be recognized in the years ended June 30, as follows:

2019	$ 43,723,794
2020	50,403,439
2021	24,486,536
2022	9,431,352
2023	2,903,559
2024	707,220
	$ 131,655,900

(Expressed in United States dollars) (Unaudited)

8. 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, 2019.

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

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Current income tax (expense) recovery	**$ (903,000)**	$ (1,629,000)	**$ (1,915,000)**	$ (1,843,000)
Deferred income tax recovery (expense)	**257,000**	80,000	**563,000**	552,000
	$ (646,000)	$ 1,549,000	**$ (1,352,000)**	$ 1,291,000)

(Expressed in United States dollars) (Unaudited)

8. INCOME TAXES (continued)

Income tax expense for the three and six months ended December 31, 2018 and 2017 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Income before income taxes	**$ 2,408,958**	$1,199,778	**$ 4,378,629**	$ 797,361
Combined Federal and Provincial income tax rate	**27.00%**	26.50%	**27.00%**	26.50%
Tax (expense) at statutory rate	**(650,419)**	(317,941)	**(1,182,230)**	(211,301)
Permanent differences	**(477)**	45,943	**(190,255)**	(123,882)
Foreign losses (income) tax effected at higher rates	**4,896**	(336,105)	**20,485**	(311,178)
Changes in statutory tax rates	**-**	(1,102,543)	**-**	(1,102,543)
Income applied to previously unrecognized tax assets	**-**	165,226	**-**	350,089
Losses and temporary differences for which no deferred asset has been recognized	**-**	(3,580)	**-**	(3,973)
Amounts over provided for in prior years	**-**	-	**-**	111,788
Total income tax expense	**$ (646,000)**	$(1,549,000)	**$ (1,352,000)**	$ (1,291,000)

At December 31, 2018, the Company had total net deferred tax assets of $23,610,605 (June 30, 2018 - $23,318,605), primarily related to deferred revenue balances, current income taxes receivable of $338,294 (June 30, 2018 – $345,228), primarily related to tax instalments paid, and current taxes payable of $24,100 (June 30, 2018 - $407,226) in other foreign jurisdictions. In the three and six months ended December 31, 2018 and 2017, 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.

(Expressed in United States dollars) (Unaudited)

9. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	December 31, 2018	June 30, 2018
Cash	**$ 23,198,318**	$ 17,484,488
Cash equivalents	**10,640,383**	16,472,500
	$ 33,838,701	$ 33,956,988

Other cash flow information

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Non-cash investing and financing activities				
Accrued purchases of property and equipment	**$ 15,326**	$ (290,172)	**$ 911,056**	$ 476,829

10. SEGMENTED INFORMATION

Entity wide disclosures

Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include non current contract acquisition assets, property and equipment, and goodwill.

	Three months ended December 31,		Six months ended December 31,	
	2018	2017	**2018**	2017
Revenue				
United States	**$ 21,401,365**	$ 20,440,824	**$ 42,688,595**	$ 40,821,077
Rest of world	**2,568,695**	2,299,291	**5,080,303**	4,466,101
Canada	**476,241**	472,204	**980,968**	922,831
	$ 24,446,301	$ 23,212,319	**$ 48,749,866**	$ 46,210,009

(Expressed in United States dollars) (Unaudited)

10. SEGMENTED INFORMATION (continued)

	December 31, 2018	June 30, 2018
Long-lived assets		
Canada	**$ 6,775,920**	$ 7,249,907
United States and rest of world	**4,856,829**	5,218,909
	$ 11,632,749	$ 12,468,816

11. CONTINGENCIES

Due to the nature of the Company's business, products, and patent portfolio, the Company is involved in assertions and claims 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 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.

12. SUBSEQUENT EVENTS

(a) Employee Share Purchase Plan

On January 9, 2019, 44,638 common shares were issued pursuant to the Employee Share Purchase Plan.

(b) Quarterly dividend

On January 21, 2019, the Company declared a quarterly dividend of CAD$0.08 per share on its common shares, payable in cash on February 27, 2019 to shareholders of record at the close of business on February 6, 2019.