ABSOLUTE SOFTWARE CORPORATION

Amended and Restated Fiscal 2019 Management's Discussion and Analysis

For the three months and year ended June 30, 2019

August 13, 2019

See accompanying Notice to Readers for a description of the change from the original Management's Discussion and Analysis filed earlier on August 13, 2019

<u>Notice to Readers</u>

Amended and Restated Fiscal 2019 Management's Discussion and Analysis

For the three months and year ended June 30, 2019

Absolute Software Corporation has amended and restated and refiled on SEDAR its Management's Discussion and Analysis (the "Amended MD&A") for the period ended June 30, 2019 to correct a single typographical error contained in the Management's Discussion and Analysis filed earlier on August 13, 2019 (the "Original MD&A"). The error was contained under the section entitled "F2020 Corporate Outlook" on page 28 related to the expectations for cash from operating activities. The Original MD&A incorrectly stated that for F2020 cash from operating activities is expected to be between ***14% and 20%*** of revenue. The Amended MD&A correctly states that for F2020 cash from operating activities is expected to be between ***16% and 22%*** of revenue, consistent with the press release announcing Absolute's fiscal 2019 fourth quarter and annual financial results issued on August 13, 2019. Updated CEO and CFO certifications on Form 52-109F1R have also been filed on SEDAR.

ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)
Amended and Restated Fiscal 2019 Management's Discussion and Analysis
For the three months and year ended June 30, 2019
Dated: August 13, 2019

Introduction

The following Amended and Restated Management's Discussion and Analysis ("MD&A") has been prepared in accordance with Form 51-102F1 and should be read in conjunction with the Company's Fiscal 2019 and Fourth Quarter Fiscal 2019 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about Absolute, including the Annual Information Form (the "AIF") for the year ended June 30, 2019, are available at www.absolute.com and under Absolute's profile at www.sedar.com.

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

The Company's fiscal year ends on June 30 of each year.

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

Forward-Looking Statements

This MD&A contains certain forward-looking statements and forward-looking information (collectively, "forward-looking statements") which relate to future events or Absolute's future business, operations, and financial performance and condition. Forward-looking statements normally contain words like "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall", "scheduled", and similar terms and, within this MD&A, include, without limitation, the information under the heading "F2020 Corporate Outlook" and any statements (express or implied) respecting: Absolute's future plans, strategies, and objectives; projected revenues, expenses, margins, and profitability; future trends, opportunities, challenges, and growth in Absolute's industry; Absolute's ability to maintain and enhance its competitive advantages within its industry and in certain markets; Absolute's ability to remain compatible with existing and new operating systems; the maintenance and development of Absolute's partner and reseller network; existing and new product functionality and suitability; Absolute's product and research and development strategies and plans; Absolute's data security controls; the seasonality of future revenues and expenses; the future availability of working capital and any required additional financing; future share buybacks; future dividend issuances or increases; future fluctuations in applicable tax rates, foreign exchange rates, and/or interest rates; the future availability of tax credits; the addition and retention of key personnel; increases to brand awareness and market penetration; future corporate, asset, or technology acquisitions; strategies respecting intellectual property protection and licensing; potential future litigation or product liability; Absolute's foreign operations; changes and planned changes to accounting policies and standards and their respective impact on our financial reporting; and the continued effectiveness of our accounting policies and internal controls over financial reporting. Forward-looking statements, including the F2020 Corporate Outlook, are provided for the purpose of presenting information about management's current expectations and plans relating to the future and allowing investors and others to get a better understanding of our anticipated financial position, results of operations, and operating environment. Readers are cautioned that such information may not be appropriate for other purposes.

Forward-looking statements are not guarantees of future performance, actions, or developments and are based on expectations, assumptions and other factors that management currently believes are relevant, reasonable, and appropriate in the circumstances. The material expectations, assumptions, and other factors used in developing the forward-looking statements set out herein include or relate to the following, without limitation: Absolute will be able to successfully execute its plans, strategies, and objectives; Absolute will be able to successfully manage cash flow, operating expenses, interest expenses, capital expenditures, and working capital and credit, liquidity, and market risks; Absolute will be able to leverage its past investments to support growth and increase profitability; Absolute will maintain and enhance its competitive advantages within its industry and certain markets; Absolute will keep pace with or outpace the growth, direction, and technological advancement in its industry; industry data and projections are accurate and reliable; Absolute will be able to adapt its technology to be compatible with changes to existing, and new, operating systems such as Microsoft Windows; Absolute will be able to maintain and develop its partner and reseller network; Absolute's current and future (if any) PC OEM partners will continue to provide embedded firmware and distribution and resale support; Absolute's existing and new products will function as intended and will be suitable for the intended end users; Absolute will be able to design, develop, and release new products, features, and services and enhance its existing products and services; Absolute will be able to protect against the improper disclosure of data it may process, store, and/or manage; Absolute's revenues will not become subject to increased seasonality; future financing will be available to Absolute on favourable terms if and when required; Absolute will be in a financial position to buy back some of its shares and/or issue dividends in the future; fluctuations in applicable tax rates, foreign exchange rates, and interest rates will not have a material impact on Absolute; certain tax credits will remain or become available to Absolute; Absolute will be able to attract and retain key personnel; Absolute will be successful in its brand awareness and other marketing initiatives; Absolute will be able to successfully integrate businesses, intellectual property, products, personnel, and/or technologies that it may acquire (if any); Absolute will be able to maintain and enhance its intellectual property portfolio; Absolute's protection of its intellectual property will be sufficient and its technology does not and will not materially infringe third party intellectual property rights; Absolute will be able to obtain any necessary third party licenses on favourable terms; Absolute will not become involved in material litigation; Absolute will not face any material unexpected costs related to product liability or warranties; foreign jurisdictions will not impose unexpected risks; and Absolute will maintain or enhance its accounting policies and standards and internal controls over financial reporting.

Although management believes that the forward-looking statements herein are reasonable, actual results could be substantially different due to the risks and uncertainties associated with and inherent to Absolute's business, as more particularly described in the "Risks and Uncertainties" section of this MD&A. Additional material risks and uncertainties applicable to the forward-looking statements herein include, without limitation, unforeseen events, developments, or factors causing any of the aforesaid expectations, assumptions, and other factors ultimately being inaccurate or irrelevant. Many of these factors are beyond the control of Absolute.

All forward-looking statements included in this MD&A are expressly qualified in their entirety by these cautionary statements. The forward-looking statements contained in this MD&A are made as at the date hereof and Absolute undertakes no obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise, except as may be required by applicable securities laws.

Industry and Market Data

Information contained in this MD&A concerning the industry and the markets in which Absolute operates, including Absolute's perceived trends, market position, market opportunity, market share, and competitive advantages within the markets in which it operates, is based on information from independent industry analysts and third party sources (including industry publications, surveys, and forecasts), Absolute's internal research, and management estimates. Management estimates are derived from publicly available information released by independent industry analysts and other third party sources, as well as data from Absolute's internal research, and are based on assumptions made by Absolute based on such data and its knowledge of its industry and markets, which management believes to be reasonable. Certain of the sources utilized in this MD&A have not consented to the inclusion of any data from their reports, nor has Absolute sought their consent. Absolute's internal research has not been verified by any independent source and Absolute has not independently verified any third-party information. While Absolute believes the market opportunity and market share information included in this MD&A is generally reliable, such information is inherently imprecise. In addition, projections, assumptions, and estimates of Absolute's future performance and the future performance of the industry and the markets in which Absolute operates constitute forward-looking statements herein and are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those referred to in the "Risk and Uncertainties" and other sections of this MD&A.

Trademarks

ABSOLUTE, the ABSOLUTE logo, PERSISTENCE, ABSOLUTE REACH, ABSOLUTE RESILIENCE, SELF-HEALING ENDPOINT, and DARK ENDPOINT *are trademarks of Absolute. Other product names or logos mentioned herein may be the trademarks of Absolute or their respective owners. The absence of the symbols ™ and ® in proximity to each trademark, or at all, in this MD&A is not a disclaimer of ownership of the related trademark.*

Selected Quarterly Information

USD Millions, except per share data	Q4			YTD		
	F2019	F2018	Change	F2019	F2018	Change
Revenue						
Commercial recurring[1]	$ 24.1	$ 22.9	*5%*	$ 94.6	$ 88.9	*6%*
Professional Services and Other	$ 1.2	$ 1.2	*1%*	$ 4.3	$ 4.7	*(9%)*
Total	***$ 25.3***	***$ 24.1***	*5%*	***$ 98.9***	***$ 93.6***	*6%*
Adjusted EBITDA[2]	$ 4.9	$ 3.1	*57%*	$ 19.3	$ 9.2	*110%*
As a percentage of revenue	19%	13%		20%	10%	
Net Income	$ 2.0	$ 2.6	*(20%)*	$ 7.6	$ 3.1	*144%*
Per share (basic)	$ 0.05	$ 0.06		$ 0.19	$ 0.08	
Per share (diluted)	$ 0.05	$ 0.06		$ 0.18	$ 0.08	
Cash from operating activities	$ 3.5	$ 5.0	*(30%)*	$ 10.3	$ 12.5	*(18%)*
Dividends paid	$ 2.5	$ 2.5	*(1%)*	$ 9.9	$ 10.1	*(2%)*
Per share (CAD)	$ 0.08	$ 0.08	-	$ 0.32	$ 0.32	-
Cash, cash equivalents, and short-term investments	$ 35.8	$ 34.3	*4%*			
Total assets	$ 103.3	$ 97.0	*6%*			
Deferred revenue	$ 134.4	$ 139.2	*(3%)*			
Common shares outstanding	41.6	40.2	*4%*			

Notes:

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

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

Selected Annual Information

USD Millions, except per share data	F2019	F2018	F2017
Revenue			
Commercial recurring	**$ 94.6**	**$ 88.9**	$ 85.4
Other	**$ 4.3**	**$ 4.7**	$ 5.8
Total	***$ 98.9***	***$ 93.6***	*$ 91.2*
Adjusted EBITDA[1]	**$ 19.3**	**$ 9.2**	$ 7.9
As a percentage of revenue	**20%**	**10%**	9%
Net Income (Loss)[2]	**$ 7.6**	**$ 3.1**	$ (5.0)
Per share (basic)	**$ 0.19**	**$ (0.08)**	$ (0.13)
Per share (diluted)	**$ 0.18**	**$ (0.08)**	$ (0.13)
Cash from operating activities	**$ 10.3**	**$ 12.5**	$ 1.0
Dividends paid	**$ 9.9**	**$ 10.1**	$ 9.5
Per share (CAD)	**$ 0.32**	**$ 0.32**	$ 0.32
Cash, cash equivalents, and investments	**$ 35.8**	**$ 34.3**	$ 32.9
Total assets	**$ 103.3**	**$ 97.0**	$ 98.3
Deferred revenue	**$ 134.4**	**$ 139.2**	$ 138.4
Common shares outstanding[3]	**41.6**	**40.2**	39.7

Notes:

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

(2) The improvement in net income (loss) between F2017 and F2018 was impacted by an increase in operating income (loss) of $4.8 million and an improvement in income tax (recovery) expense of $3.2 million.

(3) Common shares outstanding reflect the impact of the Company’s retirement of 280,100 common shares in F2017 and 49,800 common shares in F2018 under Normal Course Issuer Bids. See Note 9(b) to the Consolidated Financial Statements.

F2019 and Q4-F2019 Overview

Q4-2019 Financial Highlights

- Total revenue in Q4-F2019 was $25.3 million, representing a year-over-year increase of 5%.
- The Annual Contract Value Base ("ACV Base") at June 30, 2019 was $98.0 million, a sequential increase of $2.8 million, or 3%, over Q3-F2019.
- The Enterprise(3) sector portion of the ACV Base increased 5% sequentially.
- The Government(3) sector portion of the ACV Base increased 3% sequentially.
- The Education(3) sector portion of the ACV Base was relatively unchanged sequentially.
- Incremental ACV from New Customers was $2.1M in Q4-F2019, compared to $0.8 million in Q4-F2018.
- Net ACV Retention from existing customers was 101% in Q4-F2019, consistent with 101% in Q4-F2018.
- Adjusted EBITDA in Q4-F2019 was $4.9 million, or 19% of revenue, up from $3.1 million, or 13% of revenue, in Q4-F2018.
- Cash generated from operating activities in Q4-F2019 was $3.5 million, compared with $5.0 million in Q4-F2018.
- Absolute paid a quarterly dividend of CAD$0.08 per common share during Q4-F2019.

Annual F2019 Financial Highlights

- Total revenue in F2019 was $98.9 million, representing an increase of 6% over the prior fiscal year.
- The Annual Contract Value Base ("ACV Base") of $98.0 million at June 30, 2019 was up $6.5 million, or 7%, over the prior year.
- The Enterprise(3) sector portion of the ACV Base increased 11% year-over-year. Enterprise customers represented 55% of the ACV Base at June 30, 2019.
- The Government(3) sector portion of the ACV Base increased 15% year-over-year. Government customers represented 12% of the ACV Base at June 30, 2019.
- The Education(3) sector portion of the ACV Base decreased 1% from the prior year. Education customers represented 33% of the ACV Base at June 30, 2019.
- Incremental ACV from New Customers was $5.2 million in F2019, compared to $3.4 million in F2018.
- Adjusted EBITDA in F2019 was $19.3 million, or 20% of revenue, up from $9.2 million, or 10% of revenue, in the prior fiscal year.
- Cash generated from operating activities in F2019 was $10.3 million, compared with $12.5 million in the prior fiscal year.
- Absolute paid quarterly dividends totaling CAD$0.32 per common share during F2019.

Note:

(3) In Q1-F2019, we modified the allocation of some customer accounts between industry verticals, primarily the allocation of some quasi-governmental organizations from the Enterprise vertical to the Government vertical, which was previously included in the Public vertical. This reallocation was applied retrospectively, and has resulted in a revision to previously reported ACV Base and ACV Base growth figures for those verticals in historical periods. Please refer to the "*Annual Contract Value Base"* section of this MD&A.

Annual Developments

- In September 2018, Lenovo announced Absolute as a strategic partner for its ThinkShield endpoint security suite. Lenovo has long embedded Absolute Persistence in its laptop products, and now offers Absolute as a core component of its endpoint security suite to provide IT asset management, automated endpoint hygiene, and continuous compliance to customers worldwide.

- In November 2018, we announced a new strategic partnership with VAIO Corporation to enhance endpoint security capabilities by integrating patented Absolute Persistence technology within the new VAIO Pro PA and VAIO A12 models.
- In December 2018, we executed a site license agreement with one of the largest K-12 school districts in the U.S., to help it enforce safe and secure desktop, laptop and tablet usage amongst its students and staff.
- In December 2018, we completed Application Persistence for Dell Data Guardian and Dell Endpoint Security Suite Enterprise ("ESSE"), enabling Dell endpoint applications for data protection, advanced threat prevention and encryption to remain present and resilient. Application Persistence, which uses Absolute's patented Persistence technology, monitors the health of applications across a device ecosystem and remediates those that have been compromised.
- In December 2018, we completed a new General Data Protection Regulation ("GDPR") Compliance report identifying sensitive GDPR endpoint data that automatically scans for identifiers from all 31 European Economic Area ("EEA") countries – providing last mile assurance for any lost or stolen devices, where proving absence of a breach is critical in the first 72 hours.
- In February 2019, Absolute was again selected for the British Columbia's Top Employers of the Year list. The BC's Top Employers of the Year annual ranking recognizes those organizations that serve as an example within their industry, offering exceptional benefits and professional development opportunities for staff while achieving and sustaining business growth. Absolute was also selected as a BC Top Employer in 2018.
- In February 2019, Absolute was recognized as a leader in the G2 Crowd Grid® Winter 2019 Report for Endpoint Management. The report spotlights top-reviewed endpoint management solutions that enable companies to manage and secure endpoint infrastructure and ensure their endpoint protection software is present and healthy. All reviewers gave either four-star or five-star ratings for the Absolute platform, recognizing Absolute for 'Best Overall Endpoint Management Software', 'Best Mid-Market Endpoint Management Software', and 'Best Customer Relationships'. The rankings for Absolute indicate very high customer satisfaction with 97% of reviewers providing an average rating of 4.6 out of 5 stars and 91% confirming they would recommend Absolute.
- In April 2019, we released the 2019 Global Endpoint Security Trends Report, revealing that endpoint security tools and agents fail, reliably and predictably. The study analyzed data from six million devices and one billion change events over the course of a year. The findings from the report demonstrate that the complexity of endpoint device controls creates a false sense of security among organizations while, in reality, causing security gaps and significant risks due to regular and reliable tool failure (see *"Growth Strategy"* in this MD&A)..
- In April 2019, we released version 7.7 of our product which included several new key capabilities, such as enhanced user interface, supportability and manageability components. Over the year, we added a total of 84 out-of-the-box scripts in the Absolute Reach Library, enabling customers to further automate their endpoint management, hygiene, and vulnerability remediation across every endpoint, on and off the corporate network.
- In June 2019 Forbes included Absolute as one of the 'Top 10 Cybersecurity Companies to Watch in 2019'.
- In June 2019 we expanded our North American footprint with the opening up of our San Jose, California office to support our go-to-market functions and increase our brand awareness in the U.S.A.
- Over the course of F2019 we announced several key leadership appointments:
    - In November 2018, Christy Wyatt was appointed as Chief Executive Officer, and subsequently joined the Board of Directors. Ms. Wyatt has a long history of scaling high-growth technology

companies. Ms. Wyatt began her career as a software engineer, and rose through the executive leadership ranks at a number of globally recognized technology companies. She has been named one of Inc. magazine's Top 50 Women Entrepreneurs in America, CEO of the Year by Information Security Global Excellence Awards, and one of Fierce Wireless's Most Influential Women in Wireless.

- In March 2019, Dr. Nicko van Someren was appointed as Chief Technology Officer. Dr. van Someren has more than two decades of experience leading, developing and bringing to market disruptive security technologies. He previously served as Chief Security Officer and Chief Information Officer at nanopay, a financial services technology company where he was responsible for all security and IT operations. Dr. Van Someren has also served as Chief Technology Officer at the Linux Foundation, Good Technology (now a part of BlackBerry) and nCipher (recently acquired by Entrust Datacard), as well as the Chief Security Architect at Juniper Networks, and also serves as an advisor to numerous startups and security businesses.
- In April 2019, Karen Reynolds was appointed as Chief Communications Officer, where she is responsible for driving excellence in the areas of public relations, investor relations, and employee communications. Ms. Reynolds has held senior roles in growth companies including HP, BMC Software, Centrify, and Good Technology (prior to its acquisition by Blackberry) and most recently worked with Andreessen-Horowitz startup People.ai.
- In May 2019, John Robinson was appointed as Chief Human Resources Officer. Mr. Robinson is responsible for overseeing global human capital management, while driving a culture of high performance that inspires, activates and develops the company's talent. Mr. Robinson is a former U.S. Marine with a long and successful career in human resources, most recently at Tapestry Solutions, a software subsidiary of Boeing, where he was responsible for global HR strategy and execution in 11 countries. Prior to that, Mr. Robinson was the global HR director for a large division of the global engineering company, Black & Veatch.
- In June 2019, Sandra Toms was appointed as Chief Marketing Officer. With more than two decades of experience, Ms. Toms was most recently employed at RSA Security, where she led and curated the RSA Conference, successfully increasing the global attendance from under 2,000 to nearly 50,000, and catapulting its success into the world's premier cybersecurity event. Beginning in 2008, she also was selected to oversee RSA's Corporate Communications engagement and strategy in order to refine thought leadership initiatives and leverage knowledge from her long-standing management of the RSA Conference and RSA's strong customer brands.

Company Overview

Absolute® provides a cloud-based endpoint visibility and control platform that enables the management and security of computing devices, applications and data for enterprise and public sector organizations. Our unique platform enables IT and security professionals to enforce asset management, security hygiene, and data compliance for computing endpoints, both on and off the corporate network. Our unique solutions are anchored to endpoint devices by our patented Persistence® technology, which is embedded in the firmware of laptop, desktop and tablet devices (collectively, "endpoint devices") by the majority of the world's largest global computer manufacturers ("PC OEMs"). We currently serve approximately 12,000 commercial customers worldwide. Our company website is www.absolute.com.

Solutions and Technology

Absolute Platform

The Absolute Resilience platform is our endpoint security and management solution that leverages Persistence for uncompromised visibility and control over endpoint devices, applications, and data. The platform features a cloud-based dashboard that enables users to easily view the security posture and other attributes of their endpoint devices. Our platform is delivered to customers through our product versions called Visibility, Control and Resilience, as well as through our Partner Ecosystem via custom integrations or our Persistence-as-a-Service offering.

The Absolute Resilience platform enables customers to monitor the health of their activated devices, including the health of critical third-party security and management applications and the presence of sensitive data. In addition, customers can run reports and queries based on device, application, or data attributes; set custom alerts based on changes in device states; and launch custom scripts to detect and remediate emerging vulnerabilities across their endpoint devices. The platform also enables customers to perform automated remote actions to remediate security threats (examples include device freeze, data delete, and end-user messaging) and (in certain cases) to engage our Investigations team to perform remote investigations on the device.

Absolute customers and partners can also subscribe to Application Persistence, which enables third-party security and management applications to become resilient on the endpoint by leveraging the capabilities of our Persistence technology. Application Persistence provides a solution to one of the most pervasive information security challenges that organizations face: the endpoint security and management tools that they rely on are commonly broken, disabled, uninstalled, or outdated, leaving endpoints – and the organizations to which they belong – increasingly vulnerable to security threats. The unique self-healing capability provided by Application Persistence enables the automatic repair or re-installation of third-party endpoint agents such as encryption, anti-malware, software patching, virtual private network ("**VPN**"), client management tools, and other installations. Application Persistence allows our customers to be confident and compliant in providing consistent security coverage across all enabled devices, on and off the corporate network.

Our solution also incorporates Absolute Reach, a powerful custom query and remediation feature. Absolute Reach provides customers with the ability to launch custom commands to detect and remediate emerging vulnerabilities across their endpoint devices on-demand. This feature enables customers to gather precise contextual insights, execute custom workflows, and deploy automation commands to remediate Dark Endpoints, ransomware attacks, and other endpoint vulnerabilities. With the ability for customers to write custom commands, Absolute Reach enables asset managers and security professionals to proactively address an endless number of use cases.

The Absolute Resilience platform can be integrated into third-party SIEM systems in order to correlate endpoint risk data with other sources of security intelligence, thereby improving the returns our customers realize on pre-existing technology investments and their overall enterprise resiliency.

Persistence Technology

Our patented Persistence technology is embedded into the firmware of endpoint devices at the point of manufacture by 25 of the world's leading PC OEMs. Once activated, Persistence provides a reliable, highly tamper-resistant, constant connection between the device and our cloud-based monitoring center, even when the device is off the corporate network and beyond the reach of traditional IT management and security tools. Persistence is a key differentiator for us as it enables a high degree of resilience for our software agent as well as for other critical third-party software agents that leverage the self-healing capabilities of Persistence. If the software agent is removed or disabled, an automatic reinstallation will occur, even if the firmware is overwritten or flashed, the device is reimaged, the hard drive is replaced, or if the device is restored to its factory settings.

Deployment Model

Our solutions are delivered in a SaaS business model. An Absolute software agent is installed on the device hard drive (or flash memory) at the factory by our PC OEM partners or it can be installed by the end customer. Once the Absolute agent software is installed onto the drive memory, it activates the Persistence module embedded in the device firmware and maintains regular contact with the cloud-based Absolute Monitoring Center (hosted by Absolute). Customers interact with the Absolute Resilience platform by logging into the Absolute Customer Center, where they can receive detailed data from each device, set alert parameters, and initiate security actions.

Market Opportunity

The market opportunity for Absolute is driven by a growing problem referred to as the Dark Endpoint™: enterprise computing devices that are not connected to the corporate network or are missing critical IT management applications. Dark Endpoints pose a considerable operational challenge and security threat to organizations because these devices may be missing or have outdated security or other applications, they may contain sensitive data, or the devices may be in the hands of unauthorized users. The issue of Dark Endpoints is a growing concern for organizations as employees are increasingly working from remote locations, outside the view and control provided by the traditional network-based management and security tools. Absolute provides a solution to the Dark Endpoint problem by leveraging our unique self-healing agent and resilient cloud connection capabilities, which provide a consistent connection to devices both on and off the corporate network.

The broader market opportunity for Absolute is driven by the growing incidence of data breaches and cyber-attacks on organizations together with the increased prevalence of mobile workforces and the increasing regulatory and corporate emphasis on information security and data privacy. Based on industry analyst research, worldwide spending on security-related IT solutions is forecast to reach $134 billion in 2022[1], with 24% of security spend currently directed to endpoint security[2]; however 70% of data breaches continue to originate on endpoint devices[3].

[1] IDC *"Worldwide Security Spending Guide",* October, 2018

[2] Gartner, IT Key Metrics Data 2019*, "Key IT Security Measures"*

3 IDC Infographic, March, 2016

As reported in Absolute's 2019 Endpoint Security Trends Report, a significant portion of this endpoint security spend fails to achieve its objectives because security agents are often not installed or are not operating due to malfunction, misconfiguration, lack of patching or end user interference. Absolute provides a unique solution to this challenge by leveraging our self-healing Persistence technology which gives IT organizations visibility into agent health and enables rapid remediation of missing or non-functional third-party software agents.

Business Model

Our solutions are delivered in a software-as-a-service ("SaaS") business model, where customers access our service through the cloud-based Absolute console. Absolute solutions are offered in specific versions for (i) the Enterprise and Government, and (ii) the Education verticals. All versions are available in three editions: Visibility (Standard), Control (Professional) and Resilience (Premium), each of which provides a different subset of product features and functionality. In addition, our solutions are offered through our Partner Ecosystem via custom integrations or our Persistence-as-a-Service offering.

We operate a direct sales force with responsibility for solution selling and relationship management with our end customers, as well as a channel support team with responsibility for cultivating go-to-market initiatives with our channel partners. Commonly, a customer's initial purchase of our solutions will be made in conjunction with the purchase of new endpoint devices and will represent a small portion of the overall license opportunity within that customer's environment. Most customer deployments expand over time, either as a result of customer purchases of incremental licenses on new device purchases or, alternatively, through the purchase of an enterprise or site license covering all devices in their environment. As a result, our sales efforts focus on both sales to new customers and expansion opportunities within our existing customer base (see "*Annual Contract Value Base*" in this MD&A).

During the selling process, we typically co-engage with our PC OEM partners, value-added resellers ("VARs") and distribution partners (see *"Partner Ecosystem"* below). Customer orders generally flow from our customers to our partners, who then place orders directly with Absolute. We generate approximately 75-80% of our total revenues in conjunction with our PC OEM partners.

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

Growth Strategy

Our growth strategy is divided into four pillars:

Persistence – Our ecosystem of PC OEMs is the foundation of our core capabilities. We are focused on continuing to enhance and expand these PC OEM relationships from both a technology and a go-to-market perspective. This includes working with our PC OEM partners to deliver unique solutions that utilize our Persistence capabilities that align with their individual strategic objectives. Our strategy also includes expanding our Persistence ecosystem over time to include additional partners and device types, such as exploring business development opportunities with independent software vendors.

Resilience – The Absolute Resilience platform is our endpoint security and management solution that leverages Persistence for uncompromised visibility and control over endpoint devices, applications, and data. We are continuing to strengthen the capabilities of the platform to solve the Dark Endpoint challenge and grow our customer base.

We believe that our opportunity for growth is strongest in the Enterprise and Government sectors, and particularly within the healthcare, financial services, professional services, and state, local, and federal government verticals, where there are high proportions of mobile employees who possess sensitive data on their devices and where the regulatory, financial, and reputational consequences of a data breach are high. We are therefore concentrating our product, sales, and marketing investments to drive growth in these verticals.

Intelligence – Our Intelligence initiative is focused on enabling our customers to receive valuable insights from their endpoint data, such as the efficacy of their endpoint controls, and the true state of their devices and software. During our fiscal 2020 year we intend to enhance our capabilities around capturing, analyzing, and delivering actionable insights that enable our customers to optimize the security and efficiency of their endpoint devices.

Education – Our Education initiative is to continue to support and grow our Education customers, which currently represent 33% of our annual contract value ("ACV") base and who have unique product and market requirements.

Our recent trend toward sales declines in this vertical have reflected a secular trend specific to the Education sector. While customers in the Enterprise sector generally associate the value of our solutions with the protection of information, many of our customers within the Education sector have historically associated the value of our solutions with the protection and recovery of devices. As a result, we have seen a correlation between declining device prices and our average selling prices in the Education sector.

We believe that recent and upcoming enhancements to our Education offering, such as Student Technology Analytics and the offering of site licensing alternatives, will broaden the appeal of our solutions and will provide a value proposition distinct from device recovery. We believe that the recent improvements in our sales performance in the Education sector are a direct result of these enhancements; however, these enhancements have only recently been, or are still being, introduced to the market and therefore their continuing impact on our Education business remains to be proven.

Product development is a key element of our growth strategy across all four strategic pillars. Our product development efforts are centered on leveraging our existing product solution and our unique Persistence technology to deliver increasing value to our customers and partners. These product development investments are focused on a number of initiatives, including extending Application Persistence to self-heal additional third-party applications and evolving our cloud-based platform in order to continue to increase the scalability, extensibility and features of our platform as well as to enable the offering of a private cloud version of our solution.

For our existing customers, ongoing product development promotes customer retention and provides a compelling upsell and expansion opportunity on which we have begun to capitalize. With our new customers, particularly those in the Enterprise and Government verticals, we have observed a trend towards purchases of product tiers that include higher levels of functionality and a corresponding higher per unit ACV. In conjunction with our internal product development efforts, we regularly evaluate potential acquisition candidates.

We also continuously invest in marketing activities to drive brand awareness within our target markets and with our channel partners with an objective to position Absolute as the leader in endpoint resilience within key markets in North America and internationally.

From a geographic perspective, our near term focus is on growing our North American business and, as a result, we are approaching our international sales expansion efforts in a limited and focused manner. Currently, we generate approximately 87% of our revenue within North America; however, international markets account for roughly half of the total global IT security market. As a result, we believe that there is a significant opportunity to further expand sales internationally, particularly within Europe as a result of the increased data protection and privacy requirements imposed by the recently-implemented General Data Protection Regulation ("GDPR").

Competition

We have historically had few direct competitors for our solutions, which we believe are unique in the market. On occasion, we encounter companies offering a competitive subset of our technology, such as IT asset management, device tracking, and remote locking and wiping. Examples include enterprise IT asset management companies such as Tanium and Microsoft Intune, education market computer tracking software vendors such as GoGuardian and Prey, and various enterprise mobility management vendors that provide management solutions for smartphones and tablets. Based on our patented self-healing Persistence technology and accompanying off-network capabilities, unique feature and services offerings, broad device and platform coverage, extensive PC OEM relationships and strong patent portfolio, we believe that we maintain a unique position in the market.

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

Patent Portfolio

At June 30, 2019, we had a portfolio of 135 issued patents and 24 new patent applications in process.

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

Partner Ecosystem

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

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

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

Aava Mobile (since 2015)	MPS Mayorista (since 2015)
Acer (since 2009)	Mustek Systems (since 2015)
ASUS (since 2009)	NCS Technologies, Inc. (since 2007)
DDM Brands (since 2014)	Panasonic (since 2006)
Dell (since 2005)	PC Smart SA (since 2013)
Fujitsu (since 2006)	Pinnacle Africa (since 2015)
Fujitsu Client Computing Ltd. (since 2019)	Positivo Informatica SA (since 2014)
Getac (since 2008)	Prestigio (since 2015)
HP (since 2005)	Samsung (since 2011)
Inforlandia LDA (since 2013)	Toshiba (since 2006)
Intel (Classmate Computer) (since 2009)	VAIO (since 2017)
Lenovo (since 2005)	Yezz (since 2015)
Microsoft (since 2014)	

Subscription Billings

We sell our solutions under a term license model in which customers acquire subscriptions to our software-based services for a specified term typically ranging from one to five years. The majority of these subscriptions are fully invoiced up-front for the entire licensed term on ordinary payment terms and are non-refundable. We refer to our total invoiced sales in a period as our total “Billings”. Over the past twelve months, the prepaid term of our Billings has averaged approximately 24 months (based on the ratio of the total amount invoiced over the annualized contract value of the associated Billings).

We also offer enterprise license (“EL”) and site license (“SL”) models, which provide customers with the option to license our software for multiple years with an annual payment at the start of each contract year. The EL and SL models were introduced in order to match the buying preferences of some of our Enterprise and Education customers and generally result in a positive impact to ACV compared to prepaid multi-year licenses. While only a small percentage of our customer base has licensed our software through the EL and SL models, we do expect it to become a larger percentage of our new customer license sales over time and that, as a result, our average prepaid license term is expected to decrease over time.

From a financial reporting perspective, the amount invoiced by us is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position and is recognized as revenue ratably over the contract term. Due to the fact that the majority of our Billings are for terms longer than one year, in general only 15-25% of total Billings reported for any given fiscal year are also recognized as revenue in the same fiscal year.

Seasonality

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

Non-IFRS Measures

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

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

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

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

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

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

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

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

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

b) Adjusted Operating Expenses

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

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

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

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

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

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

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

	Three months ended June 30,					
	2019			2018		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted**	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	**$ 3.6**	**$ -**	**$ 3.6**	$ 3.4	$ -	$ 3.4
Total Operating Expenses	**18.7**	**(1.9)(1)**	**16.8**	19.8	(2.2)(1)	17.6
Adjusted Operating Expenses	**$ 22.3**	**$ (1.9)**	**20.4**	$ 23.2	$ (2.2)	21.0

	Year ended June 30,					
	2019			2018		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted**	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	**$ 13.0**	**$ -**	**$ 13.0**	$ 14.3	$ (0.0)(2)	$ 14.3
Total Operating Expenses	**75.0**	**(8.4)(1)**	**66.6**	76.4	(6.3)(1)	70.1
Adjusted Operating Expenses	**$ 88.0**	**$ (8.4)**	**$ 79.6**	$ 90.7	$ (6.3)	$ 84.4

Notes:

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

(2) Amortization of intangible assets per the Statement of Cash Flows.

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

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

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

	Three months ended June 30					
	2019			**2018**		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted EBITDA**	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	**$ 3.0**	**$ 1.9(1)**	**$ 4.9**	$ 0.9	$ 2.2(1)	$ 3.1

	Year ended June 30,					
	2019			**2018**		
(in millions)	**Per consolidated financial statements**	**Adjustments**	**Adjusted EBITDA**	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	**$ 10.9**	**$ 8.4(1)**	**$ 19.3**	$ 2.9	$ 6.3(1)(2)	$ 9.2

Notes:

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

(2) Amortization of intangible assets per the Statement of Cash Flows.

d) Billings

See the “Subscription Billings” and “Seasonality” sections of this MD&A for a detailed discussion of Billings. Billings are a component of deferred revenue (see Note 10 of the Notes to the Consolidated Financial Statements) and result from invoiced sales of our solutions. Most of our Billings relate to prepaid term license subscriptions. We view Cash from Operating Activities as a meaningful performance metric, and the total amount of our Billings in a period will have a material impact on our operating cash flows.

FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

Annual Contract Value Base

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

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

(in millions)	**Q4-F2019**	Q3-F2019	Q2-F2019	Q1-F2019	Q4-F2018
ACV Base – Total	**$ 98.0**	**$ 95.2**	**$ 95.3**	$ 93.1	$ 91.5
Enterprise[(1)]	***53.6***	***51.1***	***50.9***	*49.6*	*48.3*
Government[(1)]	***11.6***	***11.2***	***11.0***	*10.6*	*10.0*
Education[(1)]	***32.8***	***32.9***	***33.4***	*32.9*	*33.2*
North America	***85.7***	***84.2***	***84.8***	*83.0*	*81.7*
International	***12.3***	***11.0***	***10.5***	*10.1*	*9.8*
T4Q Growth – Total	**7%**	**5%**	**6%**	5%	4%
Enterprise[(1)]	***11%***	***9%***	***12%***	*13%*	*13%*
Government[(1)]	***15%***	***19%***	***17%***	*20%*	*11%*
Education[(1)]	***(1%)***	***(3%)***	***(4%)***	*(8%)*	*(7%)*
North America	***5%***	***4%***	***6%***	*4%*	*4%*
International	***26%***	***15%***	***15%***	*14%*	*11%*
Sequential QoQ Growth – Total	**3%**	**(0%)**	**2%**	2%	1%
Enterprise[(1)]	***5%***	***0%***	***3%***	*3%*	*3%*
Government[(1)]	***3%***	***2%***	***4%***	*5%*	*7%*
Education[(1)]	***(0%)***	***(1%)***	***1%***	*(1%)*	*(3%)*
North America	***2%***	***(1%)***	***2%***	*2%*	*1%*
International	***12%***	***5%***	***4%***	*3%*	*2%*

(1) In Q1-F2019, we modified the allocation of some customer accounts between industry verticals, primarily the allocation of some quasi-governmental organizations from the Enterprise vertical to the Government vertical, which was previously included in the Public vertical. This reallocation was applied retrospectively, and has resulted in a revision to previously reported ACV Base and ACV Base growth figures for those verticals in historical periods.

Our success with respect to the retention and expansion of service subscriptions from existing commercial customers during a period is represented by our Net ACV Retention rate, and our success with respect to acquiring new commercial customers during a period is measured by the amount of incremental ACV from new commercial customers ("ACV from New Customers"). In Q4-F2019, Net ACV Retention from existing commercial customers was 101%, up from 99% in Q3-F2019 and similar to 101% in Q4-F2018. ACV from New Customers was $2.1 million in Q4-F2019, up from $1.1 million in Q3-F2019 and also up from $0.8 million in Q4-F2018.

We believe that our market growth opportunity is most highly concentrated in the Enterprise and Government verticals, and therefore we have directed a substantial portion of our sales and marketing and product development investment to target these markets. We believe these focused initiatives have helped drive the 11% and 15% T4Q growth we have experienced in these markets, respectively.

As discussed previously under *"Growth Strategy",* we have recently experienced pricing pressure in the Education vertical. In order to counter this trend, we have introduced enhancements to our education-focused offerings, such as Student Technology Analytics, the bundling of managed services with our offerings, and the offering of site licensing alternatives, which we believe will broaden the appeal of our solutions in the Education market. In Q2-F2019, we executed a site license with a large education customer, which contributed significantly to the improved performance in that vertical in that period.

As a result of the industry trends outlined above, we expect the enterprise and government verticals to represent an increasing proportion of our ACV Base over time. At June 30, 2019, the ACV Base was represented 55% by Enterprise vertical customers, 12% by Government vertical customers, and 33% by Education vertical customers. During Q4-F2019, 95% of ACV from New Customers was attributable to customers from the Enterprise and Government verticals, with the remaining 5% being attributable to customers from the Education vertical.

From a geographic perspective, the June 30, 2019 ACV Base was represented 87% by North American customers and 13% by international customers. As a result of its smaller ACV Base, we expect international results to fluctuate with a higher degree of variability.

Revenue

Total revenue in Q4-F2019 increased 5% to $25.3 million from $24.1 million in Q4-F2018. This was represented by a 5% increase in commercial recurring revenue and a 1% increase in non-recurring professional services and other revenue. In the annual period of F2019, total revenue increased 6% to $98.9 million from $93.6 million in F2018, with a 6% increase in commercial recurring revenue and a 9% decrease in non-recurring professional services and other revenue. In general, we believe our future commercial recurring revenue performance will be closely aligned with the net growth in our ACV Base.

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

(in millions)	**Q4-F2019**	Q3-F2019	Q2-F2019	Q1-F2019	Q4-F2018
Commercial Recurring Revenue	**24.1**	24.0	23.4	23.2	22.9
Professional Services and Other	**1.2**	0.9	1.0	1.1	1.2
Total Revenue	**$ 25.3**	$ 24.9	$ 24.4	$ 24.3	$ 24.1
Year-over-year increase (decrease)					
Commercial Recurring Revenue	***5%***	*8%*	***6%***	*7%*	*5%*
Professional Services and Other	***1%***	*(18%)*	***(8%)***	*(10%)*	*(11%)*
Total Revenue	***5%***	*7%*	***5%***	*6%*	*4%*

The table below provides a comparison of our Q4 and year-to-date revenue:

(in millions)	**Q4 F2019**	Q4 F2018	Increase (decrease)	**YTD F2019**	YTD F2018	Increase (decrease)
Revenue recognized from:						
Term licensing(1)	**$ 23.1**	$ 22.1	5%	**$ 91.0**	$ 86.1	6%
Managed services(1)	**1.0**	0.8	19%	**3.6**	2.8	27%
Commercial Recurring Revenue	**24.1**	22.9	5%	**94.6**	88.9	6%
Professional services	**0.2**	0.2	(31%)	**0.7**	1.2	(41%)
Other	**1.0**	1.0	8%	**3.6**	3.5	2%
Total Revenue	**$ 25.3**	$ 24.1	5%	**$ 98.9**	$ 93.6	6%

(1) Cloud services and recurring managed professional service revenues are included as part of our ACV Base (please refer to the *"Critical Accounting Policies and Estimates"* section of this MD&A).

(2) Other revenue represents revenue derived from ancillary product lines, including consumer products.

Adjusted Operating Expenses[1]

(Millions of dollars)	**Q4 Fiscal 2019**	Q4 Fiscal 2018	Increase (decrease)	**YTD Fiscal 2019**	YTD Fiscal 2018	Increase (decrease)
Cost of revenue ("COR")[1]	**$ 3.6**	$ 3.4	7%	**$ 13.0**	$ 14.3	(9%)
Sales and marketing ("S&M")	**9.2**	10.2	(9%)	**37.4**	40.9	(9%)
Research and development ("R&D")	**5.0**	4.8	4%	**19.2**	20.1	(4%)
General and administration ("G&A")	**2.5**	2.6	(3%)	**10.0**	9.1	10%
Adjusted Operating Expenses[1]	**$ 20.4**	$ 21.0	(3%)	**$ 79.6**	$ 84.4	(6%)
Number of employees at June 30	**477**	495	(4%)	**477**	495	(4%)

ADJUSTMENTS:

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

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

(percentage of Revenue)	**Q4 Fiscal 2019**	Q4 Fiscal 2018	**YTD Fiscal 2019**	YTD Fiscal 2018
Cost of revenue ("COR")[1]	**14%**	14%	**13%**	15%
Sales and marketing ("S&M")	**37%**	42%	**38%**	44%
Research and development ("R&D")	**20%**	20%	**19%**	21%
General and administration ("G&A")	**10%**	11%	**10%**	10%
Adjusted Operating Expenses[1]	**81%**	87%	**80%**	90%
Adjusted EBITDA[1]	**19%**	13%	**20%**	10%

ADJUSTMENTS:

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

Adjusted Operating Expenses in Q4-F2019 were $20.4 million, down 3% from $21.0 million in Q4-F2018, and were $79.6 million in the annual period of F2019, down 6% from $84.4 million in F2018. The year-over-year decrease in F2019 was primarily attributable to lower spending in sales and marketing, resulting from lower levels of partner and program marketing expenditures, professional fees, and personnel related costs. In addition, cost of revenue and research and development expenses decreased as a result of focused rationalization of certain costs and a lower Canadian dollar. These decreases were partially offset by an increase in general and administration, primarily a result of CEO transition costs incurred during the year.

Adjusted EBITDA was 19% of revenue in Q4-F2019, up from 13% from Q4-F2018, and was 20% in the annual period of F2019 as compared to 10% in F2018. The increase in Adjusted EBITDA in F2019 was attributable to an increase in revenues and lower Adjusted Operating Expenses.

Cost of Revenue ("COR") and Gross Margin
Cost of revenue includes the costs of operating our SaaS-hosted infrastructure, customer support, professional and investigative services, as well as service guarantee costs and allocated overhead.

Adjusted COR was $3.6 million in Q4-F2019, up 7% from $3.3 million in Q4-F2018, and was $13.0 million in the annual period of F2019, down 9% from $14.3 million in F2018. As a result, gross margin was 86% in the Q4-F2019 and Q4-F2018, and was 87% in the annual period of F2019 compared to 85% in F2018.

The decrease in COR in Q4 and the annual period of F2019 was primarily attributable to lower levels of international partner fees, in-licensed technology, technology infrastructure expenses, and allocated overheads.

We exited Q4-F2019 with a headcount of 72 in this area as compared to 75 at March 31, 2019 and 77 at June 30, 2018.

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

S&M expense decreased 9% to $9.2 million in Q4-F2019 compared to $10.2 million in Q4-F2018, and was $37.4 million in the annual period of F2019, down 9% from $40.9 million in F2018. As a percentage of revenue, adjusted S&M expenses were 37% and 38% in the Q4 and annual periods of F2019, compared to 42% and 44% in the comparative periods of F2018.

Our Q4 and annual F2019 S&M expense was impacted by lower levels of partner and direct marketing program spending, professional fees related to sales infrastructure, and personnel related costs including travel and entertainment expenditures, as compared to F2018. These decreases were partially offset by increased amortized commission expense compared to F2018. We exited Q4-F2019 with a headcount of 142 in sales and marketing as compared to 136 at March 31, 2019 and 138 at June 30, 2018.

Research and Development ("R&D")

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

R&D expense was $5.0 million in Q4-F2019, up 4% from $4.8 million in Q4-F2018, and decreased 4% in the annual period of F2019 to $19.2 million from $20.1 million in F2018. Total SRED ITCs recorded were $0.4 million in Q4-F2019, down from $0.7 million in Q4-F2018, and were $1.9 million for the annual period of F2019 compared to $2.1 million in F2018. In Q3-F2018, we recorded a $200,000 positive adjustment to SRED ITCs as a result of filing certain historical claims, and there was not a comparable adjustment in F2019.

When measured as a percentage of revenues, adjusted R&D expenses were 20% in Q4-F2019 and Q4-F2018, and were 19% in the annual period of F2019 compared to 21% in the prior year.

The increase in our Q4-F2019 R&D expense compared to Q4-F2018 is a result of personnel-related expenses. However, the decrease in our annual F2019 R&D expense reflects lower personnel expenses resulting from lower average headcount in F2019, partially offset by lower SRED ITCs as noted above. We exited Q4-F2019 with a headcount of 212 in research and development, compared to 204 at March 31, 2019 and 226 at June 30, 2018.

General and Administration ("G&A")

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

G&A expenses decreased 3% to $3.4 million in Q4-F2019 compared to $3.3 million in Q4-F2018. In the annual period, G&A expenses decreased 4% to $12.4 million in F2019 as compared to $12.9 million in the prior year. Adjusted G&A expenses were 3% lower in Q4-F2019, at $2.5 million compared to $2.6 million in Q4-F2018, and increased 10% to $10.0 million in the annual period of F2019 compared to $9.1 million in the prior year. When measured as a percentage of revenue, adjusted G&A expenses were 10% in Q4-F2019 compared to 11% in Q4-F2018, and were 10% in both annual periods.

The increase in adjusted G&A expenses in Q4-F2019 compared to Q4-F2018 was primarily the result of increased amounts of professional fees. In addition, the annual period of F2019 was primarily impacted by non-recurring personnel related expenses resulting from the transition of our Chief Executive Officer position. We exited Q4-F2019 with a headcount of 51 in general and administration, compared to 51 at March 31, 2019 and 54 at June 30, 2018.

Operating Income and Adjusted EBITDA
We recorded IFRS operating income of $3.0 million in Q4-F2019 compared to $0.9 million in Q4-F2018. In the annual period of F2019, we recorded operating income of $10.9 million, compared to $2.9 million in F2018.

Adjusted EBITDA increased 57% to $4.9 million in Q4-F2019 from $3.1 million in Q4-F2018, and increased 110% in the annual period of F2019 to $19.3 million from $9.2 million in the comparable F2018 period. As a percentage of revenue, Adjusted EBITDA was 19% in Q4-F2019 and 20% in the year-to-date period of F2019, up from 13% and 10% in the comparable periods of F2018. The annual results for F2019 reflect the impact of an increase in revenue of $5.3 million and a decrease of $4.8 million in Adjusted Operating Expenses.

Other Income and Expenses
Absolute has historically earned interest income on its cash and investment resources beyond immediate operating requirements. We recorded interest income of $75,000 in Q4-F2019 compared to $39,000 in Q4-F2018, and $274,000 in the annual period of F2019 compared to $147,000 in the comparable F2018 period. The increase in investment income reflects moderately increased interest rates.

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

In Q4-F2019, we experienced a foreign exchange loss of $30,000, as compared to $133,000 in the comparative period. In the annual period of F2019, we recorded a foreign exchange loss of $65,000, compared to $164,000 in the comparable F2018 period. In both F2019 and F2018, the foreign exchange gains and losses were primarily the result of intra-quarter fluctuations between the U.S. and Canadian dollar.

Income Taxes

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

In Q4-F2019, we recorded a current tax recovery of $317,000 and a deferred tax expense of $1.3 million, as compared to current tax expense of $645,000 and a deferred tax recovery of $2.4 million in Q4-F2018. In the annual period of F2019, we recorded current tax expense of $1.9 million and deferred tax expense of $567,000, as compared to current tax expense of $1.2 million and deferred tax expense of $233,000 in F2018.

The difference between our effective tax rate in F2019 of 31.8% (F2018 – (9%)) and our statutory tax rate of 27.0% (F2018 – 26.5%) is primarily due to the interplay of the factors mentioned above. In the year-to-date periods of F2019 and F2018, our effective tax rate was impacted by non-deductible expenses in our Canadian operations. In the annual period of F2018, our effective tax rate was significantly impacted by a $2.5 million deferred tax recovery related the recognition of previously unrecognized operating loss carry forwards in our U.K. operations. This amount was partially offset by a $0.9 million expense related to a revaluation of our U.S. based deferred tax assets to reflect the recently enacted decrease in the U.S. federal corporate tax rate. There were no similar significant items in F2019.

In F2019 and F2018, our current tax position in Canada is net of SRED ITCs to be claimed, which are presented as a reduction of research and development expenses.

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

Net Income

The Company recorded net income in Q4-F2019 of $2.0 million compared to $2.6 million Q4-F2018. In the annual period of F2019, we recorded net income of $7.6 million, compared to $3.1 million in F2018. Net income in the current year reflects the impact of IFRS operating income and income tax expense, as described above.

Cash from Operating Activities

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

Our Billings in a period represent amounts related to expiring contract renewals, existing customer expansions and product upgrades, and new customer purchases. As our average prepaid contract term over the past four quarters has averaged 31 months, our Billings in a period are heavily influenced by the expiration of contracts sold in the same period several years prior. As a result, a comparison of current period Billings to prior year Billings may be misleading, as a year-over-year increase/decrease in Billings may infer an expansion/contraction of our ACV Base when no such expansion/contraction exists. For this reason, we believe that the change in the ACV Base is a more accurate measure of our revenue generating activities.

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

(in millions)	**Q4-F2019**	Q3-F2019	Q2-F2019	Q1-F2019	Q4-F2018	Q3-F2018
Billings	**$ 31.4**	$ 21.5	$ 20.3	$ 21.0	$ 26.7	$ 23.6

Our average prepaid contract term in Q4-F2019 was 24 months, which is lower than our historical average.

In Q4-F2019, we generated cash from operating activities of $3.5 million, down from $5.0 million in Q4-F2018. In the annual period of F2019, we generated cash from operating activities of $10.3 million, down from $12.5 million in the comparable F2018 period. Our F2019 cash from operations was impacted by lower Billings in the first three quarters of the year compared to F2018, resulting from a lower prepaid contract term. This was partially offset by the impact of reduced Adjusted Operating Expenses compared to F2018, and other working capital changes.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At June 30, 2019, our cash, cash equivalents and short-term investments were $35.8 million, compared to $34.3 million at June 30, 2018. The Company's cash and investment position was impacted in F2019 by cash from operations, an amount of $3.1 million in capital expenditures, and an outlay of $9.9 million for dividends. These amounts were offset by the receipt of $4.2 million on stock option exercises.

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

Accounts receivable

Accounts receivable balances increased to $22.2 million at June 30, 2019 (72% of Q4-F2019 Billings) from $17.3 million at June 30, 2018 (65% of Q4-F2018 Billings). The increase is primarily due to higher Billings volumes in Q4-F2019 as compared to Q4-F2018.

At June 30, 2019, 1% of the Company's accounts receivable balance was over 90 days past due, down from 4% at June 30, 2018. At June 30, 2019, accounts receivable included three PC OEM and distributor partners that represented more than 10% of receivables, at 40%, 27%, and 15%, respectively. At June 30, 2018, these three partners comprised 32%, 30%, and 6%, respectively, of our total accounts receivable, with a fourth and fifth partner each representing 10%

Deferred revenue

Deferred revenue was $134.4 million at June 30, 2019, compared to $139.2 million at June 30, 2018. Deferred revenue is comprised of the unamortized portion of deferred revenue from our Billings, which is amortized ratably to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	**F2020**	**F2021**	**F2022**	**F2023**	**F2024**	**Total**
Revenue to be recognized	$76.3	$33.1	$17.4	$6.2	$1.4	$134.4

Current taxes and deferred income tax assets

At June 30, 2019, we had current taxes receivable of $707,000 and current taxes payable of $14,000, compared to current taxes receivable of $345,000 and current taxes payable of $407,000 at June 30, 2018. In F2019 and F2018, our current tax position in Canada is net of SRED ITCs to be claimed, which are presented as a reduction of research and development expenses. Our current tax receivable primarily relates to payments of tax instalments, and our current taxes payable relates to current taxes in jurisdictions in which we have taxable income.

At June 30, 2019, we had total deferred income tax assets of $22.4 million, compared to $23.3 million at June 30, 2018. These deferred tax assets are primarily attributable to the future benefit of deferred revenue balances, operating tax loss carry forwards in our U.K. operations, and to amounts relating to SRED ITCs in our Canadian operations. Management believes these deferred income tax assets are more likely than not to be realized.

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

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

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

F2020 Corporate Outlook

The Company's outlook for F2020 is as follows:

- Revenue is expected to be between $103 million and $106 million, representing 4% to 7% annual growth.
- Adjusted EBITDA is expected to be between 18% and 22% of revenue.
- Cash from operating activities is expected to be between 16% and 22% of revenue.
- Capital expenditures are expected to be between $3.5 million and $4.0 million.

The Company's forecast for Adjusted EBITDA and cash from operating activities incorporates the expected impact of IFRS 16, *"Leases"*, which will be implemented commencing F2020. IFRS 16 is expected to positively impact both F2020 Adjusted EBITDA and cash from operating activities by $2.0 million to $2.5 million as a result of amortization of a lease asset and from increased interest expense. See *"Future Accounting Standards"* in this MD&A.

The foregoing expectations constitute forward-looking statements and financial outlook and are qualified in their entirety by the cautionary statement set out at the beginning of this MD&A.

Shareholders' Deficiency and Outstanding Share Data

At June 30, 2019, Absolute had a shareholders' deficiency of $50.6 million. In evaluating shareholders' deficiency, management believes it is important to consider the $134.4 million of deferred revenue carried on the statement of financial position. Deferred revenue represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which we expect to generate high margins when recognized in income, as much of the associated contract acquisition costs are already included in the operating deficit. In addition, any common shares repurchased as part of our historical Substantial Issuer Bid or Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit.

The Company's common shares trade on the Toronto Stock Exchange ("TSX") (TSX: ABT) and at June 30, 2019 the Company had 41,645,551 (August 13, 2019 – 41,697,497) issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at June 30, 2019:

- Stock Option Plan: 1,151,213 (August 13, 2019 – 1,150,763) stock options granted and outstanding. The stock options have a weighted average exercise price of CAD$7.82 per share and a weighted average term to expiry of 4.2 years. There were 385,000 stock options granted in F2019.
- Performance and Restricted Share Unit ("PRSU") Plan: 312,404 (August 13, 2019 – 312,404) Performance Share Units ("PSU"s) granted and outstanding. The PSUs have a weighted average term to expiry of 8.4 years. There were 297,178 PSUs granted in F2019.
- PRSU Plan: 1,282,298 (August 13, 2019 – 1,254,769) Restricted Share Units ("RSU"s) granted and outstanding. The RSUs have a weighted average term to expiry of 1.5 years. There were 1,012,598 RSUs granted in F2019. The RSUs outstanding include 14,445 units that were issued pursuant to a market-based PRSU Plan, and have been previously acquired under the terms of permissible share buyback mechanisms and are currently held as treasury shares.
- Employee Share Purchase Plan: Under the Purchase Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million common shares have been reserved for grant under the Plan, of which 1,907,901 have been issued as at June 30, 2019 (August 13, 2019 – 1,943,864).

On September 25, 2018, we received approval from the TSX to commence a Normal Course Issuer Bid on September 28, 2018 that enables the Company to purchase and cancel up to 1,933,375 of its common shares. This 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, we purchased and cancelled shares under previously approved Normal Course Issuer Bids (collectively, the "Bids").

Under the Bids, no common shares were purchased in F2019.

Contractual Commitments

The Company's minimum payments required under operating leases for premises, equipment, and business service agreements are as follows as at June 30, 2019:

2020	$ 2,854,402
2021	2,358,356
2022	1,176,344
2023	284,925
2024 and thereafter	612,937
	$ 7,286,964

Off Balance Sheet Arrangements

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

Corporate Developments

On August 7, 2019, Lynn Atchison was unanimously elected to our Board of Directors. Ms. Atchison is a resident of Austin, U.S.A., and currently serves on the boards of Q2 Technologies, Convey, and RealMassive. Ms. Atchison also a member of original steering committee for Women@Austin and an Advisory Board Member of Philanthropitch. Most recently, Ms. Atchison was the CFO of Spredfast, Inc., a provider of enterprise social media management software. Prior to that, she served as the CFO of the online vacation rental marketplace HomeAway, Inc. from August 2006 until March 2016.

Related Party Transactions

Key management personnel compensation

	F2019	F2018
Salaries, bonus, and short-term employment benefits	**$ 4,288,039**	$ 3,399,389
Share-based compensation	**2,998,792**	1,438,349
	$ 7,286,831	$ 4,837,738

In F2019, 18 individuals, inclusive of our Board of Directors, were included in key management personnel, as compared to 18 individuals in F2018.

Subsequent Events

Employee share purchase plan

On July 12, 2019, 35,963 common shares were issued pursuant to the Employee Share Purchase Plan.

Quarterly dividend

On July 19, 2019, the Company declared a quarterly dividend of CAD$0.08 per share on its common shares, payable in cash on August 29, 2019 to shareholders of record at the close of business on August 8, 2019.

Financial Instruments

Overview

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed have not changed from the year ended June 30, 2018.

Market risk

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchange rates, and interest rates, will affect the Company's income or the value of its financial instruments. The Company does not engage in risk management practices such as hedging, derivatives or short selling with respect to its investments.

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company's functional currency is the U.S. dollar. However, the Company maintains Canadian dollar net asset positions, and therefore records gains in periods of rising Canadian dollar exchange rates and losses in periods of declining rates. Canadian dollar operating costs are converted at current exchange rates, while revenue is recorded at historic rates from when the original Billings were recorded into deferred revenue, and as a result the Company's operating loss increases in periods when the Canadian dollar appreciates.

Foreign Currency Sensitivity Analysis

The Company typically does not enter foreign currency hedges. Volatility in the Canadian dollar relative to the U.S. dollar could impact the Company's current operating margins as a significant amount of operating costs are denominated in Canadian dollars. Appreciation in the Canadian dollar would negatively impact the Company's current operating margins, while further depreciation in the Canadian dollar would positively impact current operating margins.

The Company is exposed to fluctuations in the Canadian dollar and the U.K. pound, through Canadian dollar and U.K. pound working capital balances and operating expenses. The Company's sensitivity to a 1% strengthening of the Canadian dollar against the U.S. dollar is an approximate decrease of $275,000 in annual operating income and a $350,000 decrease in net income. The Company's sensitivity to a 1% strengthening of the U.K. pound against the U.S. dollar is an approximate decrease of $30,000 in annual operating income and a $29,000 decrease in net income. For a 1% weakening of the Canadian dollar or U.K. pound against the U.S. dollar, there would be an equal and opposite impact on operating income and net income.

Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company mitigates liquidity risk by holding sufficient cash and cash equivalents to meet its financial obligations. The Company's growth is financed through cash on hand and cash flows from operations. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

Credit Risk

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty, failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by carrying out credit investigations for new customers and partners, and by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. Accounts receivable are net of allowance for doubtful accounts of $288,000 (June 30, 2018- $282,000).

At June 30, 2019, 1% of the Company's accounts receivable balance was over 90 days past due, down from 4% at June 30, 2018. At June 30, 2019, accounts receivable included three PC OEM and distributor partners that represented more than 10% of receivables, at 40%, 27%, and 15%, respectively. At June 30, 2018, these three partners comprised 32%, 30%, and 6%, respectively, of our total accounts receivable, with a fourth and fifth partner each representing 10%.

The Company manages credit risk related to cash, cash equivalents, and investments by maintaining bank and investment accounts with high credit quality financial institutions, including Schedule 1 banks.

Fair Values of Financial Instruments

The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and accrued warranty approximate their fair values due to the immediate or short-term nature of these instruments. Short-term investments are carried at market value using Level 1 valuation inputs.

Quarterly Operating Data

(in USD millions except share and per share data)	**Q4-19**	Q3-19	Q2-19	Q1-19	Q4-18	Q3-18	Q2-18	Q1-18
Revenue	**25.3**	24.9	24.4	24.3	24.1	23.3	23.2	23.0
Adjusted EBITDA(1)	**4.9**	5.8	4.6	4.1	3.1	2.4	2.4	1.3
Net income (loss)	**2.0**	2.5	1.8	1.3	2.6	1.1	(0.3)	(0.1)
Basic and diluted income (loss) per share	**0.06**	0.06	0.04	0.03	0.06	0.03	(0.01)	(0.00)
Cash from Operating Activities	**3.5**	0.8	1.8	4.0	5.0	2.3	3.2	2.1
Dividends paid	**2.5**	2.4	2.4	2.5	2.5	2.5	2.5	2.5
Repurchases of common shares	**0.0**	0.0	0.0	0.0	0.0	0.2	0.0	0.0
Number of common shares outstanding	**41.6**	41.1	40.4	40.4	40.2	40.2	40.1	39.9

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

Critical Accounting Policies and Estimates
Management considers the Company’s accounting for revenue, contract acquisition assets and deferred income taxes to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute’s business.

Revenue

We operate 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. We provide access to the customer console to our clients on a subscription basis.

We principally derive our revenues from two sources: subscription 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 (defined below), revenue is recognized upon transfer of control of promised products and services to customers in an amount that reflects the consideration we expect 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, we include an estimate of the amount we expect 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.

We obtain the majority of our customer arrangements through our PC OEM and reseller partners, most of which are based 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.

Our 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 our hosted software without taking possession of the software. Revenue is generally recognized ratably over the contract term.

We typically invoice our reseller partners upon execution of the contract and fulfillment of services to the end customer. We typically execute a new contract for subsequent renewals or follow on orders. Amounts that have been invoiced are recorded in accounts receivable and in deferred revenue.

(b) Professional Services and Other Revenues

Our 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

We enter into contracts with our 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, we consider 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.

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

We determine 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 our go-to-market strategies evolve, the Company may modify its pricing practices in the future, which could result in changes to SSP.

In certain cases, we are able to establish SSP based on observable prices of products or services sold separately in comparable circumstances to similar customers. The Company generally uses a range of 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, we previously 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. 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 we incur additional incremental costs to renew our 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 our direct and indirect sales forces. 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 we have 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 consolidated statement of operations.

Deferred Income Taxes

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

Recent Accounting Pronouncements

Standards Adopted in F2019

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.

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. We completed our implementation plan and have adopted IFRS 15 in our 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 our analysis, we have determined that our customer contracts previously accounted for ratably over the term of the subscription meet the requirements for revenue recognition over time under IFRS 15, and as a result, we 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.

We applied the provisions of IFRS 15 retrospectively, and we did not utilize any transitional practical expedients in the application of IFRS 15. Our updated Revenue accounting policy is noted above, under *"Critical Accounting Policies and Estimates"*.

Future Accounting Standards

IFRS 16 – *"Leases"* ("IFRS 16")

IFRS 16 was released in January 2016 to improve the accounting for leases, generally by eliminating a lessees' classification of leases and introducing a single lessee accounting model. The most significant effect of the new standard will be the lessee's recognition of the initial present value of unavoidable future lease payments as lease assets and lease liabilities on the statement of financial position. Leases with durations of 12 months or less and leases for low-value assets are both exempted.

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. However, the new standard will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases, and will result in the recognition of amortization expense of the lease asset and of interest expense.

The standard is effective for annual periods beginning on or after January 1, 2019 and will supersede IAS 17, "*Leases"*. The Company has substantially completed its assessment of the impact of the standard and will adopt IFRS 16 in its financial statements for the annual period beginning on July 1, 2019. We will be using the modified retrospective method of adoption.

We anticipate that our leases of office space and data centers, currently accounted for as operating leases, will meet the requirements for recognition as right of use assets. We have completed our assessment and upon transition at July 1, 2019, we will recognize a right of use asset within the range of $9.0 million to $9.5 million and a corresponding lease liability within the range of $9.5 million to $10 million. This will result in a year-over-year increase in lease asset amortization and interest expense of $2.0 million to $2.5 million, and a reduction in lease expense.

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

Disclosure controls and procedures

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

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

Internal control over financial reporting

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Absolute's CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at June 30, 2019 in accordance with *Internal Control – Integrated Framework 2013,* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Absolute's CEO and CFO have determined that the Company's internal control over financial reporting is effective as at June 30, 2019 and expect to certify Absolute's annual filings with the Canadian securities regulatory authorities.

Changes in internal control over financial reporting

There were no changes in internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Risks and Uncertainties

This section describes some of the material risks that may affect the Company. If any of the following risks are realized, they may have a material adverse effect on the Company's business, products, reputation, financial condition, operating results, and/or prospects. In addition to the risks outlined in this MD&A, there may be other risks and uncertainties that are not known to the Company or that the Company currently believes are not material, but which also may have a material adverse effect on the Company's business, products, reputation, financial condition, operating results, and/or prospects. In addition to the other information set forth elsewhere in this MD&A and in the AIF, current and prospective investors should carefully review the risk factors set forth in this section. These and other unidentified risk factors could materially affect the Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements. Our discussion in this section is qualified in its entirety by the cautions regarding forward-looking statements at the beginning of this MD&A.

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

Dependence on PC OEMs and Distribution Channels – Absolute's Persistence technology and product and sales strategies are heavily dependent on its ability to maintain its embedded BIOS and firmware positions with its PC OEM partners. In addition, Absolute generates a substantial portion of its revenue through PC OEM channels and other distribution partners. Our solutions (including our Persistence technology) may compete with other solutions developed and/or marketed by a PC OEM or other distribution partner or otherwise lose favour with these partners. Our PC OEM and other distribution partners may also cease or reduce marketing our solutions with limited or no notice and with little or no penalty. New PC OEM and distribution partners require extensive training and may take several months or more to achieve productivity. If any of our PC OEM partners elect to not embed, or reduce the prevalence of, our Persistence technology or favour competing products, Absolute may have to change its product strategies, which could have a material adverse effect on Absolute's business, operating results and financial condition. In addition, if any of our PC OEM or other distribution partners cease or reduce marketing our solutions and/or we fail to manage these important sales and distribution channels effectively, Absolute may have to change its sales strategies, which could have a material adverse effect on Absolute's business, operating results and financial condition.

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

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

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

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

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

Privacy Laws – Absolute's customers use our service to transmit, receive and store certain identifying information regarding their computing devices in various jurisdictions, including, in some instances, location information. Our Absolute products and monitoring system are developed to ensure that forensic components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented and used by Absolute's trained and authorized experts in the case of emergency or with our customer's explicit consent. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Location information may be obtained as part of normal use, and we instruct and rely on our customers to obtain the required notices and consents for such geolocation tracking. If a customer fails to give the required notice or obtain the consent required by law, we may not be aware of the breach and could be in violation of applicable privacy laws. Federal, provincial, state and certain foreign governmental bodies and agencies are experiencing heightened sensitivity to privacy issues and have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. In particular, the GDPR, which became effective on May 25, 2018, is wide-ranging in scope. In order to meet the requirements of the GDPR we may have to invest resources necessary to implement certain policy changes across our business units, products and services relating to how we collect and use personal data relating to customers, employees and vendors. Failure to comply may lead to sizeable fines. The costs of compliance with, and other burdens imposed by, such and other evolving laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries or jurisdictions.

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

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

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

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

Cyclical Nature of our Business – Our business may be impacted from time to time by the general cyclical and seasonal nature of PC and other device purchases by corporate, education and governmental entities. For instance, in the education sector, greater technology purchases tend to occur in our fiscal Q4, in line with school-year-end purchasing cycles. Other factors which may create cyclical fluctuations include the development and adoption of new operating system software, the expiry of leases on devices or the introduction of newer or more advanced devices, legal and regulatory requirements, and the timing of contract renewals between our partners and their own customers. Since some of our revenue from particular products and services are tied to the volume of shipments being processed, adverse fluctuations in the volume of global shipments may adversely affect our revenues. There can be no assurance that declines in shipment volumes in the United States or internationally will not have a material adverse effect on our business.

Competition – It is possible that new competitors will enter the markets we operate in. Several potential competitors (including PC OEMs) are marketing or have announced the development of products and related patents that could be in direct competition with Absolute. In addition, as Absolute develops new products and services, we may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their products and services more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, devote greater resources to the marketing and sale of their services and products than Absolute and place downward pressure on the pricing of Absolute's products and services. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations. In addition, competitors are continuing to surface as security and management applications for mobile devices are introduced to market. Industry consolidation also may affect prices or demand for our products.

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

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

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

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

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

Economic and Geo-Political Uncertainty – Current and future global economic and geo-political conditions remain volatile and uncertain. As a result, it is difficult to estimate the level of growth or contraction for the global economy as a whole. It is even more difficult to estimate economic growth or contraction in various sectors and regions, including the markets in which the Company operates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and the demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of stagnant economic conditions, trade tensions and tariff uncertainty, political deadlock, nationalism and protectionism, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of our services and, therefore, may impact our ability to meet our targets for ACV Base, Revenue, Adjusted EBITDA, and Cash from Operating Activities.

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

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

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

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in our executive management team or the composition of our Board of Directors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions;
- Foreign exchange rates; and

- Other risk factors as set out in this MD&A.

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

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

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

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

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

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

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

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

Future acquisitions or dispositions could also result in dilutive issuances of our common shares, a decrease in our cash and cash equivalents and short-term investments, the incurrence of additional expense related to compliance, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and negatively impact our operating results.

The Effect of Amortization of Revenue Over the Term of the Subscription – Absolute generally recognizes revenue from customer subscriptions to our Cloud Services ratably over the terms of the Billings. Over the previous four quarters the average prepaid contract term was approximately 31 months, although terms under our subscription licensing model typically range from one to five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to Billings entered into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, we may be unable to adjust our cost structure to reflect the changes in Billings. Accordingly, the effect of significant downturns in sales and market acceptance of our services or products may not be fully reflected in Absolute's results of operations until future periods.

Billings – Most Billings are conducted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders, which include ship dates, customer name, product, pricing and volume, come in various forms from the reseller partner (sales reports, purchase orders, shipping reports, royalty reports, etc.). Absolute ships the software, commences the subscription term and invoices the reseller (and receives payment from the reseller) based on receipt of, or ship dates contained in, these forms of evidence of the end customer purchase, and reports this as a Billing for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns is kept to a minimum. Historically, Absolute's experience with returns has corroborated that this reliance is sufficient. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Billings and revenue performance. However, Absolute does not make a provision against Billings for potential returns because revenue is recognized ratably over the prepaid contract term, which averages multiple years; therefore any returns are generally accounted for prior to any material recognition of revenue.

Income Taxes – Significant judgment is required in determining our provision for income taxes. Various internal and external factors may have favourable or unfavourable effects on our future provision for income taxes, income taxes payable and/or effective income tax rate. These factors include, but are not limited to: changes in tax laws, regulations and/or rates; results of audits by tax authorities; changing interpretations of existing tax laws or regulations; changes in estimates of prior years' items; future levels of R&D spending; changes in the overall mix of income among the different jurisdictions in which we operate; and changes in overall levels of income before taxes. To the extent that the taxation authorities do not agree with our tax positions, we may not be able to realize all or a portion of the tax benefits recognized. Furthermore, new accounting pronouncements or new interpretations of existing accounting pronouncements (such as those described in *"Recent Accounting Pronouncements"* in this MD&A) can have a material impact on our effective income tax rate.

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

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

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

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