

*Interim Condensed Consolidated Financial Statements of*

**ABSOLUTE SOFTWARE CORPORATION**

*Three and nine months ended March 31, 2017 and 2016*

(Unaudited)

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

	Notes	March 31, 2017	June 30, 2016
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents		\$ 34,205,013	\$ 23,092,852
Short-term investments	(Note 3)	368,356	11,637,085
Trade and other receivables	(Note 4)	11,662,865	21,138,351
Income taxes receivable	(Note 10)	230,149	-
Prepaid expenses and other		2,390,687	2,379,234
		<b>48,857,070</b>	<b>58,247,522</b>
INVESTMENTS	(Note 3)	-	12,821,302
PROPERTY AND EQUIPMENT		6,264,072	5,853,222
DEFERRED INCOME TAX ASSETS	(Note 10)	23,655,378	22,353,391
INTANGIBLE ASSETS AND GOODWILL	(Note 5)	14,324,632	15,382,262
		<b>\$ 93,101,152</b>	<b>\$ 114,657,699</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Trade and other payables	(Note 6)	\$ 10,494,806	\$ 13,942,922
Income taxes payable	(Note 10)	-	5,990,927
Accrued warranty		490,000	460,000
Deferred revenue – current	(Note 7)	71,286,837	72,464,399
		<b>82,271,643</b>	<b>92,858,248</b>
DEFERRED REVENUE	(Note 7)	60,947,565	65,509,763
		<b>143,219,208</b>	<b>158,368,011</b>
CONTINGENCIES	(Note 13)		
<b>SHAREHOLDERS' DEFICIENCY</b>			
Share capital	(Note 9(b))	64,335,516	58,607,382
Equity reserve		35,959,082	36,732,175
Treasury shares	(Note 9(j))	(499,443)	-
Deficit		(149,913,211)	(139,049,869)
		<b>(50,118,056)</b>	<b>(43,710,312)</b>
		<b>\$ 93,101,152</b>	<b>\$ 114,657,699</b>

**SUBSEQUENT EVENT (Note 14)**

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on May 8, 2017:

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

(signed) "Josef Vejvoda"  
Josef Vejvoda, Director

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statements of Operations and Comprehensive Income

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2017	2016	2017	2016
<b>REVENUE</b>		<b>\$ 23,091,063</b>	\$ 21,658,820	<b>\$ 68,026,070</b>	\$ 66,783,984
<b>COST OF REVENUE</b>		<b>3,376,636</b>	3,359,645	<b>10,838,729</b>	10,030,991
<b>GROSS MARGIN</b>		<b>19,714,427</b>	18,299,175	<b>57,187,341</b>	56,752,993
<b>OPERATING EXPENSES</b>					
Sales and marketing		<b>11,104,476</b>	10,497,110	<b>33,519,393</b>	33,505,811
Research and development		<b>3,922,951</b>	3,362,211	<b>13,176,739</b>	9,439,346
General and administration		<b>3,121,113</b>	2,275,311	<b>9,546,588</b>	7,507,760
Share-based compensation	(Note 9(i))	<b>1,009,798</b>	1,589,497	<b>3,227,273</b>	3,593,463
		<b>19,158,338</b>	17,724,129	<b>59,469,993</b>	54,046,380
<b>OPERATING INCOME (LOSS)</b>		<b>556,089</b>	575,046	<b>(2,282,652)</b>	2,706,613
<b>OTHER INCOME</b>					
Interest income, net		<b>25,761</b>	53,231	<b>73,347</b>	232,528
Foreign exchange (loss) gain		<b>(11,340)</b>	170,187	<b>(40,585)</b>	(625,875)
Gain on disposal of business unit		-	-	-	14,098,066
		<b>14,421</b>	223,418	<b>32,762</b>	13,704,719
<b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>		<b>570,510</b>	798,464	<b>(2,249,890)</b>	16,411,332
<b>INCOME TAX (EXPENSE) RECOVERY</b>	(Note 10)	<b>(797,000)</b>	382,000	<b>(609,000)</b>	(5,468,000)
<b>NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME</b>		<b>\$ (226,490)</b>	\$ 1,180,464	<b>\$ (2,858,890)</b>	\$ 10,943,332
<b>BASIC (LOSS) INCOME PER SHARE</b>		<b>\$ (0.01)</b>	\$ 0.03	<b>\$ (0.07)</b>	\$ 0.27
<b>DILUTED (LOSS) INCOME PER SHARE</b>		<b>\$ (0.01)</b>	\$ 0.03	<b>\$ (0.07)</b>	\$ 0.26
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC</b>	(Note 9(k))	<b>39,150,654</b>	38,641,924	<b>39,050,786</b>	41,035,963

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statement of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital					Total
	Number of Common shares	Amount	Equity reserve	Treasury Shares	Deficit	
<b>BALANCE, JUNE 30, 2015</b>	<b>44,862,344</b>	<b>\$ 59,607,392</b>	<b>\$ 35,322,483</b>	<b>\$ -</b>	<b>\$ (108,066,367)</b>	<b>\$ (13,136,492)</b>
Shares issued on options exercised	759,350	4,317,142	(1,461,192)	-	-	2,855,950
Shares issued under Employee Share Purchase Plan	125,861	621,880	-	-	-	621,880
Shares issued under Phantom Share Unit Plan	160,552	1,503,355	(1,087,880)	-	-	415,475
Shares repurchased and cancelled under the Normal Course Issuer Bid	(816,000)	(283,660)	-	-	(561,895)	(845,555)
Shares committed to be repurchased under the Normal Course Issuer Bid	-	(63,000)	-	-	(118,000)	(181,000)
Shares repurchased and cancelled under the Substantial Issuer Bid	(6,250,000)	(7,685,894)	-	-	(30,603,647)	(38,289,541)
Share-based compensation	-	-	3,187,353	-	-	3,187,353
Dividends paid	-	-	-	-	(6,901,179)	(6,901,179)
Net income and total comprehensive income	-	-	-	-	10,943,332	10,943,332
<b>BALANCE, MARCH 31, 2016</b>	<b>38,842,107</b>	<b>\$ 58,017,215</b>	<b>\$ 35,960,764</b>	<b>-</b>	<b>\$ (135,307,756)</b>	<b>\$ (41,329,777)</b>
Shares issued on options exercised	124,700	665,509	(303,604)	-	-	361,905
Shares repurchased and cancelled under the Normal Course Issuer Bid	(85,500)	(75,342)	-	-	(167,438)	(242,780)
Share-based compensation	-	-	1,075,015	-	-	1,075,015
Dividends paid	-	-	-	-	(2,360,025)	(2,360,025)
Net loss and total comprehensive loss	-	-	-	-	(1,214,650)	(1,214,650)
<b>BALANCE, JUNE 30, 2016</b>	<b>38,881,307</b>	<b>\$ 58,607,382</b>	<b>\$ 36,732,175</b>	<b>\$ -</b>	<b>\$ (139,049,869)</b>	<b>\$ (43,710,312)</b>
Shares issued on options exercised	583,625	3,535,299	(1,141,589)	-	-	2,393,710
Shares issued under Employee Share Purchase Plan	84,455	361,477	-	-	-	361,477
Shares issued under Phantom Share Unit Plan	327,145	2,281,206	(2,281,206)	-	-	-
Shares repurchased and cancelled under the Normal Course Issuer Bid	(280,100)	(449,848)	-	-	(876,847)	(1,326,695)
Treasury shares repurchased under the Normal Course Issuer Bid	-	-	-	(499,443)	-	(499,443)
Share-based compensation	-	-	2,649,702	-	-	2,649,702
Dividends paid	-	-	-	-	(7,127,606)	(7,127,606)
Net loss and total comprehensive loss	-	-	-	-	(2,858,889)	(2,858,889)
<b>BALANCE, MARCH 31, 2017</b>	<b>39,596,432</b>	<b>\$ 64,335,516</b>	<b>\$ 35,959,082</b>	<b>\$ (499,443)</b>	<b>\$ (149,913,211)</b>	<b>\$ (50,118,056)</b>

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Condensed Consolidated Statements of Cash Flows

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

	Notes	Three months ended		Nine months ended	
		March 31,		March 31,	
		2017	2016	2017	2016
<b>OPERATING ACTIVITIES</b>					
Net (loss) income		\$ (226,490)	\$ 1,180,464	\$ (2,858,890)	\$ 10,943,332
Items not involving cash					
Amortization of property and equipment		763,475	551,391	2,163,244	1,610,907
Amortization of acquired intangible assets	(Note 5)	11,444	125,760	95,926	505,359
Amortization of intangible assets – contract costs and brand	(Note 5)	2,280,904	2,001,168	6,766,589	5,748,116
Share-based compensation	(Note 9(i))	1,014,285	1,426,217	3,227,273	3,187,350
Deferred income taxes	(Note 10)	(1,408,987)	856,000	(1,301,987)	(275,000)
Gain on disposal of business unit		-	-	-	(14,098,066)
Transaction fees on disposal of business unit		-	-	-	(1,257,910)
Amortization of investment premium		-	71,315	466,885	438,721
Change in non-cash working capital					
Trade and other receivables		2,149,315	596,853	9,475,486	9,791,067
Income taxes receivable		826,688	(1,989,171)	(3,597,186)	2,440,657
Prepaid expenses and other		(135,020)	(210,356)	(11,453)	(93,381)
Intangible assets – contract costs and brand additions	(Note 5)	(1,840,714)	(2,515,988)	(5,873,286)	(7,176,139)
Trade and other payables		(2,312,666)	(432,603)	(2,515,933)	1,018,539
Accrued warranty		-	30,000	30,000	(20,000)
Deferred revenue		(1,488,301)	(1,595,905)	(5,739,760)	(6,336,474)
<b>CASH (USED IN) FROM OPERATING ACTIVITIES</b>		<b>(366,067)</b>	<b>95,145</b>	<b>326,908</b>	<b>6,427,078</b>
<b>INVESTING ACTIVITIES</b>					
Purchase of property and equipment		(885,262)	(827,101)	(3,968,246)	(1,687,442)
Purchase of intangible assets		-	-	-	(225,000)
Proceeds from disposal of business unit		-	-	-	11,046,737
Income taxes paid on disposal of business unit		-	-	(2,623,890)	-
Proceeds from investments		268,146	8,000,000	23,623,146	11,700,000
Purchase of investments		-	-	-	(201,124)
<b>CASH (USED IN) FROM INVESTING ACTIVITIES</b>		<b>(617,116)</b>	<b>7,172,899</b>	<b>17,031,010</b>	<b>20,633,171</b>
<b>FINANCING ACTIVITIES</b>					
Repurchase of common shares for cancellation	(Note 9(b))	(714,653)	(623,284)	(1,326,695)	(43,078,164)
Dividends paid	(Note 9(h))	(2,378,728)	(2,233,488)	(7,127,606)	(6,901,179)
Purchase of treasury shares	(Note 9(j))	(499,443)	-	(499,443)	-
Issuance of common shares	(Note 9(b))	1,784,650	1,119,553	2,757,698	3,187,237
<b>CASH USED IN FINANCING ACTIVITIES</b>		<b>(1,808,174)</b>	<b>(1,737,219)</b>	<b>(6,196,046)</b>	<b>(46,792,106)</b>
<b>FOREIGN EXCHANGE EFFECT ON CASH</b>		<b>(69,699)</b>	<b>71,002</b>	<b>(49,711)</b>	<b>(679,801)</b>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(2,861,056)</b>	<b>5,601,827</b>	<b>11,112,161</b>	<b>(20,411,658)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>		<b>37,066,069</b>	<b>18,092,065</b>	<b>23,092,852</b>	<b>44,105,550</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>		<b>\$ 34,205,013</b>	<b>\$ 23,693,892</b>	<b>\$ 34,205,013</b>	<b>\$ 23,693,892</b>

### SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 11)

See accompanying notes to the Condensed Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 1. NATURE OF OPERATIONS

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

### 2. SIGNIFICANT ACCOUNTING POLICIES

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

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended June 30, 2016.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the annual consolidated financial statements as at and for the year ended June 30, 2016. Interim results are not necessarily indicative of the results expected for the fiscal year.

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

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

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 3. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>March 31, 2017</u>	<u>June 30, 2016</u>
Term deposits	\$ 368,356	\$ 650,975
Investment grade securities	-	10,986,110
	<u>\$ 368,356</u>	<u>\$ 11,637,085</u>

At June 30, 2016, the Company's long-term investments are comprised entirely of investment grade securities. All investments are classified as held to maturity.

### 4. TRADE AND OTHER RECEIVABLES

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

	<u>March 31, 2017</u>	<u>June 30, 2016</u>
Trade receivables	\$ 11,775,918	\$ 21,207,490
Other receivables	168,508	196,527
Allowance for doubtful accounts	(281,561)	(265,666)
	<u>\$ 11,662,865</u>	<u>\$ 21,138,351</u>

At March 31, 2017, 4% of the Company's accounts receivable balance is over 90 days past due (June 30, 2016 – 2%). As at March 31, 2017, 27%, 16%, 15%, and 11%, (June 30, 2016 - 26%, 15%, 30%, and 13%) of the receivable balances are owing from four OEM and distributor partners.



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

### 5. INTANGIBLE ASSETS AND GOODWILL

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

	Nine months ended March 31, 2017			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Contract costs	\$ 13,923,735	\$ 5,685,540	\$ (6,611,950)	\$ 12,997,325
Patents and other	164,327	-	(164,327)	-
Brand rights – LoJack	194,200	187,746	(154,639)	227,307
Goodwill	1,100,000	-	-	1,100,000
	<b>\$ 15,382,262</b>	<b>\$ 5,873,286</b>	<b>\$ (6,930,916)</b>	<b>\$ 14,324,632</b>

	Nine months ended March 31, 2016				
	Carrying amount - opening	Additions	Amortization	Disposals	Carrying amount - ending
Contract costs	\$ 12,323,146	\$ 6,988,640	\$ (5,656,384)	\$ (753,397)	\$ 12,902,005
Software – Palisade	133,333	-	(133,333)	-	-
Customer relationships – Palisade	91,666	-	(35,414)	-	56,252
Patents and other	572,748	225,000	(319,472)	(198,825)	279,451
Brand rights – LoJack	81,479	187,500	(91,732)	-	177,247
Goodwill	1,100,000	-	-	-	1,100,000
	<b>\$ 14,302,372</b>	<b>\$ 7,401,140</b>	<b>\$ (6,236,335)</b>	<b>\$ (952,222)</b>	<b>\$ 14,514,955</b>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

### 6. TRADE AND OTHER PAYABLES

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

	<u>March 31, 2017</u>	<u>June 30, 2016</u>
Payroll and employee benefits	\$ 4,248,834	\$ 5,484,393
Trade payables	3,499,520	6,533,633
Accrued liabilities	1,213,738	1,595,187
Lease inducements	1,174,619	19,980
Sales taxes payable	358,095	309,729
	<u>\$ 10,494,806</u>	<u>\$ 13,942,922</u>

### 7. DEFERRED REVENUE

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

<b>Data and Device Security</b>	<b>Nine months ended March 31,</b>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ 137,974,162	\$ 135,316,725
Billings	62,283,221	58,495,393
Revenue recognized	(68,026,070)	(63,899,547)
Other adjustments	3,089	(1,637)
Balance, end of period	<u>132,234,402</u>	<u>129,910,934</u>
Less: current portion	<u>(71,286,837)</u>	<u>(69,351,064)</u>
	<u>\$ 60,947,565</u>	<u>\$ 60,559,870</u>

<b>Endpoint and Service Management</b>	<b>Nine months ended March 31,</b>	
	<u>2017</u>	<u>2016</u>
Balance, beginning of period	\$ -	\$ 9,394,624
Billings	-	1,953,754
Revenue recognized	-	(2,884,437)
Divested	-	(8,463,941)
Balance, end of period	<u>\$ -</u>	<u>\$ -</u>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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

During the nine months ended March 31, 2017, under the terms of an agreement with a former senior officer, the Company incurred post-retirement benefits in the amount of \$638,000. In addition, during the nine months ended March 31, 2017, the Company reorganized certain functional departments to optimize internal resources. Pursuant to the reorganization, the Company incurred termination benefits amounting to \$2,121,148 (2016 - \$753,726).

These post-retirement benefits and reorganization charges were attributable to the following areas for the three and nine months ended March 31, 2017 and 2016:

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
Research and development	\$ -	\$ -	\$ 1,058,774	\$ -
Sales and marketing	-	-	773,780	753,726
Cost of revenue	-	-	535,240	-
General and administration	-	-	391,354	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,759,148</u>	<u>\$ 753,726</u>

### 9. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

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

(b) *Issued and outstanding*

During the nine months ended March 31, 2017, the Company issued 583,625 common shares on exercise of employee stock options for total proceeds of \$2,393,710. An amount of \$1,141,589 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the nine months ended March 31, 2017, the Company issued 84,455 common shares pursuant to its employee share purchase plan for total proceeds of \$361,477.

During the nine months ended March 31, 2017, the Company issued 327,145 common shares pursuant to its Phantom Share Unit Plan.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

During the nine months ended March 31, 2016, the Company issued 759,350 common shares on exercise of employee stock options for total proceeds of \$2,855,950. An amount of \$1,461,192 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the nine months ended March 31, 2016, the Company issued 125,861 common shares pursuant to its employee share purchase plan for total proceeds of \$621,880.

During the nine months ended March 31, 2016, the Company issued 160,552 common shares pursuant to the Phantom Share Unit ("PhSU") Plan. An amount of \$1,087,880 related to the original fair value of the shares was transferred from equity reserve to common shares upon vesting and \$415,475 was recorded in accrued liabilities.

On August 23, 2016, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on August 29, 2016 that enables the Company to purchase and cancel up to 2,643,256 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 19,864 common shares on a daily basis until August 28, 2017, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to August 29, 2016, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, during the nine months ended March 31, 2017, the Company repurchased and cancelled 280,100 common shares for a total cost of \$1,326,695 (2016 – 816,000 common shares for \$4,784,081). On cancellation of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in deficit, which amounted to \$876,847 (2016 - \$3,698,173).

#### (c) *Stock Option Plan*

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

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007, 2009, and 2015). Under the Option Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Phantom Share Unit Plan and Performance and Restricted Share Unit Plan. On this basis, at March 31, 2017, the maximum number of common shares available under the Option Plan was 3,952,447 (June 30, 2016 – 3,904,973), of which 916,202 remained available for grant thereunder.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

### 9. SHARE CAPITAL (Continued)

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

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

	Nine months ended March 31,			
	2017		2016	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	3,718,950	\$ 7.13	4,202,925	\$ 6.63
Granted	122,720	7.31	511,100	7.04
Exercised	(583,625)	5.40	(759,350)	4.94
Forfeited	(159,950)	7.79	(136,525)	5.68
Expired	(61,850)	7.32	(30,775)	7.75
Outstanding, end of period	3,036,245	\$ 7.42	3,787,375	\$ 7.05

#### *Fair values – Option Plan*

The total fair value of options granted under the Option Plan in the nine months ended March 31, 2017 was \$111,057 (2016 - \$414,533). The weighted average grant date fair value of options granted during the nine months ended March 31, 2017 was \$0.90 (2016 - \$1.01).

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

	Nine months ended March 31,	
	2017	2016
Risk-free interest rate	0.6%	0.6%
Dividend yield	4.4%	4.6%
Expected life (in years)	4.0	3.8
Volatility	31%	31%

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

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### 9. SHARE CAPITAL (Continued)

#### (d) Phantom Share Unit Plan

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

In 2015, the Company's shareholders ratified the PhSU Plan. Under the PhSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan, the Performance and Restricted Share Unit Plan, and the Employee Share Purchase Plan. On this basis, at March 31, 2017, 634,372 common shares were eligible for grant under the PRSU Plan.

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

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

	Nine months ended March 31,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	439,558	516,365
Granted	14,863	93,425
Released	(330,919)	(160,554)
Forfeited	(5,090)	(13,455)
Outstanding, end of period	<u>118,412</u>	<u>435,781</u>

The total fair value of PhSUs granted under the PhSU Plan in the nine months ended March 31, 2017 was \$111,913 (2016 - \$616,637). The weighted average grant date fair value of PhSUs granted during the nine months ended March 31, 2017 was \$7.53 (2016 - \$6.60). At March 31, 2017, none of the outstanding PhSUs had vested.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

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

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

In the year ended June 30, 2016, the Company's shareholders ratified the PRSU Plan. Under the PRSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan and the PhSU Plan. On this basis, at March 31, 2017, 916,202 common shares were eligible for grant under the PRSU Plan.

In addition, in the nine months ended March 31, 2017, the Company instituted a Market-based PRSU Plan ("Market PRSU Plan"). Shares issued pursuant to the Market PRSU Plan will be acquired, at the Company's election, under the terms of permissible share buyback mechanisms, including the Company's Normal Course Issuer Bid, and will not be issued from treasury.

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

#### Performance Share Units

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

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

	Nine months ended March 31,	
	2017	2016
	Number of units	Number of units
Outstanding, beginning of period	49,811	-
Granted	71,217	49,200
Outstanding, end of period	121,028	49,200

The outstanding PSUs at March 31, 2017 include 40,968 units that were issued pursuant to the Market PRSU Plan.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

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

The total fair value of PSUs granted under the PRSU Plan in the nine months ended March 31, 2017 was \$611,072 (2016 - \$699,624). The weighted average grant date fair value of PSUs granted during the nine months ended March 31, 2017 was \$8.80 (2016 - \$8.79). At March 31, 2017, none of the outstanding PSUs had vested.

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

#### *Restricted Share Units*

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

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

	<b>Nine months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>Number of units</b>	Number of units
Outstanding, beginning of period	<b>271,856</b>	-
Granted	<b>404,500</b>	202,450
Released	<b>(851)</b>	-
Forfeited	<b>(9,039)</b>	-
Outstanding, end of period	<b>666,466</b>	202,450

The outstanding RSUs at March 31, 2017 include 65,814 units that were issued pursuant to the Market PRSU Plan.



# ABSOLUTE SOFTWARE CORPORATION

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Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

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

The total fair value of RSUs granted under the PRSU Plan in the nine months ended March 31, 2017 was \$2,157,064 (2016 - \$941,059). The weighted average grant date fair value of RSUs granted during the nine months ended March 31, 2017 was \$5.41 (2016 - \$4.65). At March 31, 2017, 70,682 of the outstanding RSUs had vested.

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

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

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

In the year ended June 30, 2016, the Company's shareholders ratified the DSU Plan. Terms and conditions of DSUs granted are determined by the Board of Directors.

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

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

	<b>Nine months ended March 31,</b>	
	<b>2017</b>	<b>2016</b>
	<b>Number of units</b>	<b>Number of units</b>
Outstanding, beginning of period	<b>104,000</b>	-
Granted	<b>104,000</b>	104,000
Outstanding, end of period	<b>208,000</b>	104,000

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Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

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

The total fair value of DSUs granted under the DSU Plan in the nine months ended March 31, 2017 was \$588,591 (2016 - \$1,478,880). The weighted average grant date fair value of DSUs granted during the nine months ended March 31, 2017 was \$5.66 (2016 - \$7.11).

#### *(g) Employee Share Purchase Plan*

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

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the nine months ended March 31, 2017, 84,455 common shares (2016 – 125,861 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$4.28 (2016 - \$4.94) per share.

At March 31, 2017, 281,830 common shares remained available for grant under the Purchase Plan.

#### *(h) Dividends*

In the nine months ended March 31, 2017, the Company declared three quarterly dividends of CAD\$0.08 per share on its common shares. The dividends were paid in cash to shareholders of record at the close of business on August 5, 2016 (CAD\$0.08 per common share), November 4, 2016 (CAD\$0.08 per common share), and February 3, 2017 (CAD\$0.08 per common share).

# ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

### 9. SHARE CAPITAL (Continued)

(i) *Share-based compensation*

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Restricted share units	\$ 298,018	\$ 64,357	\$ 1,101,384	\$ 64,357
Deferred share unit plan	254,121	163,280	335,560	163,280
Phantom share unit plan	179,084	1,005,147	783,707	2,074,357
Stock option plan	178,579	322,735	695,514	1,197,884
Performance share units	84,569	10,223	263,331	10,223
Employee share purchase plan	15,427	23,755	47,777	83,362
	<b>\$ 1,009,798</b>	<b>\$ 1,589,497</b>	<b>\$ 3,227,273</b>	<b>\$ 3,593,463</b>

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
Cost of revenue	\$ 24,390	\$ 41,460	\$ 57,343	\$ 167,796
Sales and marketing	207,181	440,424	938,046	796,898
Research and development	213,128	351,301	727,891	972,857
General and administration	565,099	756,312	1,503,993	1,655,912
	<b>\$ 1,009,798</b>	<b>\$ 1,589,497</b>	<b>\$ 3,227,273</b>	<b>\$ 3,593,463</b>

(j) *Treasury shares*

During the nine months ended March 31, 2017, the Company acquired 104,567 treasury shares for a total cost of \$499,443 (2016 - \$nil). The treasury shares are presented as a reduction in shareholder's deficiency. The treasury shares were purchased in order to fund the Company's Market PRSU Plan (note 9(e)).

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 9. SHARE CAPITAL (Continued)

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

For the three and nine months ended March 31, 2017, the basic and diluted weighted average number of common shares outstanding was the same. For the three and nine months ended March 31, 2017, there were 949,028 and 925,376 potentially dilutive securities, respectively. For the three and nine months ended March 31, 2016, the diluted weighted average number of common shares was 39,558,325 and 42,179,990, respectively.

### 10. INCOME TAXES

The Company operates in various tax jurisdictions, and accordingly, the Company's income is subject to varying rates of tax. Losses incurred in one jurisdiction cannot be used to offset income taxes payable in another. The Company's ability to use income tax losses and deferred income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise. The Company's interim tax provisions are estimated based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2016.

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

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
Current income tax recovery (expense)	\$ 611,987	\$ 550,000	\$ 692,987	\$ (6,644,000)
Deferred income tax (expense) recovery	(1,408,987)	(168,000)	(1,301,987)	1,176,000
	<u>\$ (797,000)</u>	<u>\$ 382,000</u>	<u>\$ (609,000)</u>	<u>\$ (5,468,000)</u>

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

### 10. INCOME TAXES (Continued)

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

	Three months ended March 31,		Nine months ended March 31,	
	2017	2016	2017	2016
Income (loss) before income taxes	\$ 570,510	\$ 798,464	\$ (2,249,890)	\$16,411,332
Combined Federal and Provincial income tax rate	26.00%	26.00%	26.00%	26.00%
Tax (expense) recovery at statutory rate	(148,333)	(207,601)	584,971	(4,266,946)
Permanent differences	(631,544)	(259,548)	(969,106)	(643,685)
Foreign (income) losses tax effected at higher rates	(350,412)	486,262	(302,334)	(1,052,288)
Use of previously unrecognized tax losses	-	-	-	148,906
Losses and temporary differences for which no deferred asset has been recognized	(23,529)	-	(296,873)	(16,874)
Amounts over (under) provided for in prior years	356,818	362,887	374,342	362,887
Total income tax (expense) recovery	\$ (797,000)	\$ 382,000	\$ (609,000)	\$ (5,468,000)

At March 31, 2017, the Company had total net deferred tax assets of \$23.7 million (June 30, 2016 - \$22.4 million), primarily related to deferred revenue balances, and current income taxes receivable of \$230,000 (June 30, 2016 – Income taxes payable of \$6.0 million). In the three and nine months ended March 31, 2017 and 2016, the Company's current tax payable is partially offset by estimated investment tax credit ("ITC") receivable balances. The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

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

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

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 11. SUPPLEMENTAL CASH FLOW INFORMATION

*Composition of cash and cash equivalents*

	<u>March 31, 2017</u>	<u>June 30, 2016</u>
Cash	\$ 14,958,047	\$ 23,092,852
Cash equivalents	<u>19,246,966</u>	<u>-</u>
	<u>\$ 34,205,013</u>	<u>\$ 23,092,852</u>

*Other cash flow information*

	<u>Three months ended</u> <u>March 31,</u>		<u>Nine months ended</u> <u>March 31,</u>	
	<u>2017</u>	2016	<u>2017</u>	2016
<i>Non-cash investing and financing activities</i>				
Accrued purchases of property and equipment	\$ 587,305	\$ 44,717	\$ 1,394,156	\$ 15,282

### 12. SEGMENTED INFORMATION

(a) *Operating Segments*

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

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

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

# ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

### 12. SEGMENTED INFORMATION (continued):

The Company operated solely in the Data and Device Security segment for the three and nine months ended March 31, 2017. The Company's revenue, results, and other segment information for the three and nine months ended March 31, 2016 is as follows:

	Three months ended March 31, 2016		
	Data and Device Security	Endpoint and Service Management	Consolidated
<b>REVENUE</b>	\$ 21,658,820	\$ -	\$ 21,658,820
Cost of Revenue	(3,359,645)	-	(3,359,645)
Sales and marketing	(10,497,110)	-	(10,497,110)
Research and development	(3,362,211)	-	(3,362,211)
General and administration	(2,275,311)	-	(2,275,311)
Share-based compensation	(1,589,497)	-	(1,589,497)
<b>OPERATING INCOME</b>	575,046	-	575,046
Interest income, net	53,231	-	53,231
Foreign exchange loss	170,187	-	170,187
Disposal of business unit	-	-	-
<b>NET INCOME BEFORE INCOME TAXES</b>	\$ 798,464	\$ -	\$ 798,464
INCOME TAX RECOVERY			382,000
<b>NET INCOME AND COMPREHENSIVE INCOME</b>			\$ 1,180,464

	Nine months ended March 31, 2016		
	Data and Device Security	Endpoint and Service Management	Consolidated
<b>REVENUE</b>	\$ 63,899,547	\$ 2,884,437	\$ 66,783,984
Cost of Revenue	(9,822,803)	(208,188)	(10,030,991)
Sales and marketing	(32,456,321)	(1,049,490)	(33,505,811)
Research and development	(9,018,777)	(420,569)	(9,439,346)
General and administration	(7,287,345)	(220,415)	(7,507,760)
Share-based compensation	(3,593,463)	-	(3,593,463)
<b>OPERATING INCOME</b>	1,720,838	985,775	2,706,613
Interest income, net	232,528	-	232,528
Foreign exchange loss	(625,875)	-	(625,875)
Disposal of business unit	-	14,098,066	14,098,066
<b>NET INCOME BEFORE INCOME TAXES</b>	\$ 1,327,491	\$ 15,083,841	\$ 16,411,332
INCOME TAX EXPENSE			(5,468,000)
<b>NET INCOME AND COMPREHENSIVE INCOME</b>			\$ 10,943,332

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

### 12. SEGMENTED INFORMATION (continued):

(b) *Entity wide disclosures*

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

	Three months ended		Nine months ended	
	March 31,		March 31,	
	2017	2016	2017	2016
<b>Revenue</b>				
United States	\$ 20,364,187	\$ 18,943,767	\$ 59,618,730	\$ 57,619,450
Rest of world	2,259,536	2,425,983	6,970,541	7,558,870
Canada	467,340	289,070	1,436,799	1,605,664
	<b>\$ 23,091,063</b>	<b>\$ 21,658,820</b>	<b>\$ 68,026,070</b>	<b>\$ 66,783,984</b>

	March 31, 2017	June 30, 2016
<b>Long-lived assets</b>		
United States and rest of world	\$ 11,233,682	\$ 12,239,412
Canada	9,355,022	8,996,072
	<b>\$ 20,588,704</b>	<b>\$ 21,235,484</b>

### 13. CONTINGENCIES

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

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



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Condensed Consolidated Financial Statements

Three and nine months ended March 31, 2017 and 2016

(Expressed in United States dollars) (Unaudited)

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### 14. SUBSEQUENT EVENT

#### *Quarterly dividend*

On April 19, 2017, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on May 29, 2017 to shareholders of record at the close of business on May 9, 2017.