

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and six months ended December 31, 2019 and 2018

(Unaudited)

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

	Notes	December 31, 2019	June 30, 2019
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 18,951,424	\$ 18,690,539
Short-term investments	(Note 3)	19,609,274	17,108,226
Trade and other receivables	(Note 4)	16,232,050	22,194,252
Income tax receivable		108,777	707,923
Prepaid expenses and other		1,925,365	3,088,082
Contract acquisition assets – current	(Note 5)	5,887,556	6,592,335
		62,714,446	68,381,357
PROPERTY AND EQUIPMENT		5,622,879	6,156,814
RIGHT OF USE ASSETS	(Note 6)	8,090,700	-
DEFERRED INCOME TAX ASSETS	(Note 11)	22,835,561	22,359,165
CONTRACT ACQUISITION ASSETS	(Note 5)	4,758,066	5,313,496
GOODWILL		1,100,000	1,100,000
		\$ 105,121,652	\$ 103,310,832
LIABILITIES			
CURRENT			
Trade and other payables	(Note 7)	\$ 13,612,381	\$ 19,034,996
Income tax payable		49,135	13,543
Accrued warranty		239,415	450,000
Lease liabilities – current	(Note 8)	1,541,453	-
Deferred revenue – current	(Note 10(b))	73,938,001	76,312,162
		89,380,385	95,810,701
LEASE LIABILITIES	(Note 8)	7,387,311	-
DEFERRED REVENUE	(Note 10(b))	54,867,691	58,115,799
		151,635,387	153,926,500
COMMITMENTS	(Note 14)		
CONTINGENCIES	(Note 15)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 9(b))	80,267,136	76,778,014
Equity reserve		36,121,869	36,744,933
Treasury shares		(263,840)	(359,973)
Deficit		(162,638,900)	(163,778,642)
		(46,513,735)	(50,615,668)
		\$ 105,121,652	\$ 103,310,832

SUBSEQUENT EVENTS (Note 16)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

Approved on behalf of the Board on February 3, 2020:

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

(signed) "Lynn Atchison"
Lynn Atchison, Director

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2019	2018	2019	2018
REVENUE		\$ 25,797,614	\$ 24,446,301	\$ 51,450,103	\$ 48,749,866
COST OF REVENUE		3,022,265	3,179,779	6,255,632	6,468,183
GROSS MARGIN		22,775,349	21,266,522	45,194,471	42,281,683
OPERATING EXPENSES					
Sales and marketing		9,521,739	9,103,064	19,040,524	18,728,264
Research and development		4,185,723	4,466,077	7,925,309	9,492,483
General and administration		4,111,620	4,096,060	7,436,477	7,207,063
Share-based compensation	(Note 9(i))	1,070,385	1,189,284	2,237,186	2,508,809
		18,889,467	18,854,485	36,639,496	37,936,619
OPERATING INCOME		3,885,882	2,412,037	8,554,975	4,345,064
OTHER (EXPENSE) INCOME					
Finance income, net		128,605	71,646	240,746	147,328
Interest expense – lease liability		(126,727)	-	(257,928)	-
Foreign exchange loss		(40,426)	(74,725)	(53,245)	(113,763)
		(38,548)	(3,079)	(70,427)	33,565
NET INCOME BEFORE INCOME TAXES		3,847,334	2,408,958	8,484,548	4,378,629
INCOME TAX EXPENSE	(Note 11)	(1,137,000)	(646,000)	(2,323,000)	(1,352,000)
NET INCOME AND TOTAL COMPREHENSIVE INCOME		\$ 2,710,334	\$ 1,762,958	\$ 6,161,548	\$ 3,026,629
BASIC INCOME PER SHARE		\$ 0.06	\$ 0.04	\$ 0.15	\$ 0.07
DILUTED INCOME PER SHARE		\$ 0.06	\$ 0.04	\$ 0.14	\$ 0.07
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC		41,722,849	40,483,250	41,723,856	40,394,608
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, DILUTED		43,859,350	40,483,250	43,848,893	40,394,608

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statement of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital					
	Number of Common shares	Amount	Equity reserve	Treasury shares	Deficit	Total
BALANCE, JUNE 30, 2018	40,224,231	\$ 68,362,445	\$ 36,972,197	\$ (359,973)	\$ (161,484,035)	\$ (56,509,366)
Shares issued on options exercised	145,475	974,560	(240,190)	-	-	734,370
Shares issued under Employee Share Purchase Plan	45,616	202,653	-	-	-	202,653
Shares issued under Phantom Share Unit Plan	7,872	43,646	(43,646)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	210,903	1,142,541	(1,142,541)	-	-	-
Share-based compensation	-	-	2,155,742	-	-	2,155,742
Dividends paid	-	-	-	-	(4,917,121)	(4,917,121)
Net income and total comprehensive income	-	-	-	-	3,026,629	3,026,629
BALANCE, DECEMBER 31, 2018	40,634,097	\$ 70,725,845	\$ 37,701,562	\$ (359,973)	\$ (163,374,527)	\$ (55,307,093)
Shares issued on options exercised	609,622	3,998,837	(857,913)	-	-	3,140,924
Shares issued under Employee Share Purchase Plan	44,638	192,718	-	-	-	192,718
Shares issued under Phantom Share Unit plan	11,949	69,924	(69,924)	-	-	-
Shares issued under Performance and Restricted Share Unit plan	345,246	1,790,690	(1,790,690)	-	-	-
Share-based compensation expense	-	-	1,761,898	-	-	1,761,898
Dividends paid	-	-	-	-	(4,956,636)	(4,956,636)
Net income and total comprehensive income	-	-	-	-	4,552,521	4,552,521
BALANCE, JUNE 30, 2019	41,645,552	\$ 76,778,014	\$ 36,744,933	\$ (359,973)	\$ (163,778,642)	\$ (50,615,668)
Shares issued on options exercised	135,862	912,602	(161,710)	-	-	750,892
Shares issued under Employee Share Purchase Plan	35,963	180,842	-	-	-	180,842
Shares issued under Performance and Restricted Share Unit plan	483,927	2,395,678	(2,493,580)	96,133	-	(1,769)
Share-based compensation	-	-	2,032,226	-	-	2,032,226
Dividends paid	-	-	-	-	(5,021,806)	(5,021,806)
Net income and total comprehensive income	-	-	-	-	6,161,548	6,161,548
BALANCE, DECEMBER 31, 2019	42,301,304	\$ 80,267,136	\$ 36,121,869	\$ (263,840)	\$ (162,638,900)	\$ (46,513,735)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Cash Flows

Three and six months ended December 31, 2019 and 2018
(Expressed in United States dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2019	2018	2019	2018
OPERATING ACTIVITIES					
Net income		\$ 2,710,334	\$ 1,762,958	\$ 6,161,548	\$ 3,026,629
Items not involving cash					
Amortization of property and equipment		846,050	884,013	1,671,194	1,770,459
Amortization of right of use assets	(Note 6)	413,336	-	826,673	-
Amortization of contract acquisition assets	(Note 5)	2,103,603	2,296,762	4,352,898	4,524,565
Share-based compensation	(Note 9(i))	1,070,385	1,189,284	2,237,186	2,508,809
Deferred income taxes	(Note 11)	(108,615)	(207,000)	(476,396)	(292,000)
Unrealized gain on short-term investments		(100,165)	-	(199,272)	-
Unrealized foreign exchange loss on lease liability		65,631	-	56,840	-
Change in non-cash working capital					
Trade and other receivables		(555,165)	922,692	5,962,202	6,025,825
Income tax receivable		84,406	(40,105)	599,146	6,934
Prepaid expenses and other		808,900	249,902	1,162,717	220,512
Contract acquisition assets incurred	(Note 5)	(1,669,443)	(2,944,771)	(3,092,689)	(4,619,720)
Trade and other payables		(1,251,078)	2,273,672	(3,813,540)	737,630
Income tax payable		21,932	(15,262)	35,592	(383,126)
Accrued warranty		(290,085)	(10,000)	(210,585)	(80,000)
Deferred revenue		(1,976,458)	(4,435,474)	(5,622,269)	(7,530,786)
CASH FROM OPERATING ACTIVITIES		2,173,568	1,926,671	9,651,245	5,915,731
INVESTING ACTIVITIES					
Purchase of property and equipment		(713,409)	(459,705)	(2,362,562)	(1,880,572)
Proceeds from maturities of short-term investments		16,410,000	-	23,280,000	-
Purchase of short-term investments		(13,796,274)	-	(25,581,776)	-
CASH FROM (USED IN) INVESTING ACTIVITIES		1,900,317	(459,705)	(4,664,338)	(1,880,572)
FINANCING ACTIVITIES					
Dividends paid	(Note 9(h))	(2,512,563)	(2,443,723)	(5,021,806)	(4,917,121)
Issuance of common shares	(Note 9(b))	905,135	676,724	1,056,261	871,179
Payment of lease liabilities	(Note 8)	(417,862)	-	(827,727)	-
CASH USED IN FINANCING ACTIVITIES		(2,025,290)	(1,766,999)	(4,793,272)	(4,045,942)
FOREIGN EXCHANGE EFFECT ON CASH		78,181	(104,485)	67,250	(107,504)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,126,776	(404,518)	260,885	(118,287)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		16,824,648	34,243,219	18,690,539	33,956,988
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 18,951,424	\$ 33,838,701	\$ 18,951,424	\$ 33,838,701

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 12)

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

1. NATURE OF OPERATIONS

Absolute Software Corporation (the “Company”) was incorporated under the Company Act (British Columbia) on November 24, 1993. The Company’s principal business activity is the development, marketing, and provision of a cloud-based endpoint visibility and control platform that provides management and security of computing devices, applications and data for enterprise and public sector organizations. The Company’s solutions are anchored to endpoint devices by our patented Persistence technology, which is embedded in the firmware of laptop, desktop and tablet devices by the majority of the world’s largest global computer manufacturers (“PC OEMs”). The Company markets its solutions through PC OEMs, distributors, value added resellers, and directly to its customers, who include corporations, government entities, educational institutions, and consumers. While the majority of the Company’s sales are generated in North America, the Company’s products are also available internationally through resellers in Europe and South Africa, as well as the Asia-Pacific and Latin American regions. The Company’s head office and principal address is Suite 1400, Four Bentall Centre, 1055 Dunsmuir Street, PO Box 49211, Vancouver, British Columbia, Canada, V7X 1K8. The Company trades on the TSX under the symbol ABT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards applicable to interim financial information, as outlined in International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, and using the accounting policies consistent with those in the audited consolidated financial statements as at and for the year ended June 30, 2019, with the exception of the adoption of new accounting standards (Note 2(e)).

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, 2019. Interim results are not necessarily indicative of the results expected for the fiscal year.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) *Significant accounting policy*

Leases

The Company determines if an arrangement is a lease at inception. Leases are included in right of use assets, lease liabilities – current, and lease liabilities on the Company's condensed consolidated statements of financial position.

Right of use assets represent the Company's right to use an underlying asset for the lease term, and the corresponding lease liabilities represent its obligation to make lease payments arising from the lease. Right of use assets and lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at the commencement date. The right of use asset is reduced for tenant incentives and excludes any initial direct costs incurred. As the Company's leases do not provide an implicit rate, the net present value of future minimum lease payments is determined using the Company's incremental borrowing rate. The Company's incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, in an economic environment where the leased asset is located. The Company's lease terms may include options to extend or terminate the lease. These options are reflected in the right of use asset and lease liability when it is reasonably certain that the Company will exercise the option. The Company reassesses the lease term if and when a significant event or change in circumstances occurs within the Company's control.

Amortization expense of the right of use assets is recognized on a straight-line basis over the lease term, and interest expense is recognized on an effective interest basis based on the incremental borrowing rate.

The Company has lease agreements with lease and non-lease components, which it has elected to combine for all asset classes. In addition, the Company does not recognize right of use assets or lease liabilities for leases with a term of 12 months or less for all asset classes.

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Significant accounting judgments*

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (Note 2(d)), that has the most significant effect on the amounts recognized in the Company's consolidated financial statements, are related to:

- i) the determination of the functional currency for the Company and its subsidiaries;
- ii) the determination of the ranges of the Standalone Selling Prices of its subscription and support revenues; and
- iii) the determination of the Standalone Selling Price of its professional services revenues.

(d) *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 assessment of the Company's incremental borrowing rate related to the recognition of lease liabilities
- 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 six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) *Adoption of Accounting Standards*

Standards adopted in the year ended June 30, 2020

IFRS 16 – “Leases” (“IFRS 16”)

In January 2016, the IAB issued IFRS 16, which outlines the accounting for lease arrangements. Generally, IFRS 16 eliminates a lessee’s classification of leases and introduces a single lessee accounting model. The most significant effect of the new standard is the lessee’s recognition of the initial present value of unavoidable future lease payments as right of use 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 from the standard.

The total expense recognized over the term of a lease will be unaffected by IFRS 16. However, it results in the recognition of amortization of the right of use asset and of interest expense, as opposed to operating lease expense previously being recognized as a period cost in the statement of operations. As a result, the timing of lease expense recognition is accelerated for leases which were previously accounted for as operating leases.

Effective July 1, 2019, the Company adopted IFRS 16 in its condensed consolidated financial statements using the modified retrospective method, with the cumulative effect of initially applying the new standard recognized in retained earnings on that date. Comparative figures were not adjusted.

Upon adoption of IFRS 16, the Company recognized lease liabilities in relation to leases which had previously been classified as operating leases under the principles of International Accounting Standard (“IAS”) 17, “Leases”. These liabilities are measured at the present value of the remaining fixed lease payments, discounted using the Company’s incremental borrowing rate as at July 1, 2019. The weighted average incremental borrowing rate applied to lease liabilities recognized in the condensed consolidated balance sheet on July 1, 2019 was 5.48%.

The associated right of use assets were primarily measured as if the standard had been applied since the commencement date of the lease, but discounted using the Company’s incremental borrowing rate at the date of initial application. Certain right of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any tenant incentives and direct costs incurred relating to the lease recognized in the balance sheet as at July 1, 2019.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- the Company has not reassessed contracts that were identified as leases under the previous accounting standard (IAS 17 and International Financial Reporting Interpretations Committee (“IFRIC”) Interpretation 4, “Determining Whether an Arrangement Contains a Lease”;
- the Company has applied a single discount rate to a portfolio of leases with reasonably similar underlying characteristics;
- the Company has excluded initial direct costs in the measurement of the right-of-use asset on transition;
- the Company accounted for real estate operating leases with a remaining lease term of less than 12 months as at July 1, 2019 as short-term leases; and
- the Company has used hindsight in determining the lease term where the lease contracts contain options to extend or terminate the lease.

The following table summarizes the adjustments to opening balances resulting from the initial adoption of IFRS 16:

	As previously reported – June 30, 2019	IFRS 16 transition adjustments	Balance – July 1, 2019
Assets			
Right of use assets	-	\$ 8,917,373	\$ 8,917,373
Liabilities			
Trade and other payables	\$ 19,034,996	\$ (782,256)	\$ 18,252,740
Lease liabilities - current	-	1,601,223	1,601,223
Lease liabilities	-	8,098,428	8,098,428

The following table reconciles the change in lease liabilities upon transition at July 1, 2019:

Operating lease commitments, June 30, 2019	\$ 5,988,145
Adjustments as a result of the inclusion of renewal option(s)	9,685,221
Effect of discounting using the Company’s incremental borrowing rate	(5,973,715)
Balance, July 1, 2019	9,699,651
Less: current portion	(1,601,223)
	\$ 8,098,428

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

3. SHORT-TERM INVESTMENTS

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

	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Investment grade securities	\$ 19,238,391	\$ 16,738,329
Term deposits	370,883	369,897
	<u>\$ 19,609,274</u>	<u>\$ 17,108,226</u>

The Company's investment grade securities include Canadian and U.S. government and agency securities, including treasury bills; as well as corporate bonds and certificates of deposit.

4. TRADE AND OTHER RECEIVABLES

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

	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Trade receivables	\$ 15,811,020	\$ 22,098,804
Other receivables	902,128	383,402
Allowance for doubtful accounts	(481,098)	(287,954)
	<u>\$ 16,232,050</u>	<u>\$ 22,194,252</u>

At December 31, 2019, 3% of the Company's accounts receivable balance is over 90 days past due (June 30, 2019 – 1%). As at December 31, 2019, 44%, 21%, and 15% (June 30, 2019 – 40%, 27%, and 15%) of the receivable balances are owing from three OEM and distributor partners.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

5. CONTRACT ACQUISITION ASSETS

The following table provides a reconciliation of contract acquisition assets for the six months ended December 31, 2019 and 2018:

	Six months ended December 31,	
	2019	2018
Balance, beginning of period	\$ 11,905,831	\$ 12,216,130
Contract acquisition costs incurred	3,092,689	4,619,719
Amortization	(4,352,898)	(4,524,565)
Balance, end of period	10,645,622	12,311,284
Less: current portion	(5,887,556)	(6,940,422)
	<u>\$ 4,758,066</u>	<u>\$ 5,370,862</u>

6. RIGHT OF USE ASSETS

The following table provides a reconciliation of right of use assets for the six months ended December 31, 2019:

Balance, July 1, 2019	8,917,373
Amortization	(826,673)
Balance, end of period	<u>\$ 8,090,700</u>

7. TRADE AND OTHER PAYABLES

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

	December 31, 2019	June 30, 2019
Payroll and employee benefits	\$ 5,521,743	\$ 7,201,658
Trade payables	3,711,166	6,540,760
Deferred share units	2,108,408	2,209,246
Customer deposits	1,085,415	1,044,892
Accrued liabilities	928,016	961,929
Sales taxes payable	257,633	294,255
Lease inducements (note 2(e))	-	782,256
	<u>\$ 13,612,381</u>	<u>\$ 19,034,996</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

8. LEASE LIABILITIES

The following table provides a reconciliation of lease liabilities for the six months ended December 31, 2019:

Balance, July 1, 2019	\$ 9,699,651
Payments on lease liabilities	(827,727)
Unrealized foreign exchange loss on lease liabilities	56,840
Balance, end of period	<u>8,928,764</u>
Less: current portion	(1,541,453)
	<u>\$ 7,387,311</u>

9. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

(b) *Issued and outstanding*

During the six months ended December 31, 2019, the Company issued 135,862 common shares on exercise of employee stock options for total proceeds of \$750,892. An amount of \$161,710 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2019 and 2018

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

During the six months ended December 31, 2019, the Company issued 35,963 common shares pursuant to its employee share purchase plan for total proceeds of \$180,842.

During the six months ended December 31, 2019, the Company issued 483,927 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a fair value of \$2,493,581.

During the six months ended December 31, 2018, the Company issued 145,475 common shares on exercise of employee stock options for total proceeds of \$734,370. An amount of \$240,190 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the six months ended December 31, 2018, the Company issued 45,616 common shares pursuant to its employee share purchase plan for total proceeds of \$202,653.

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

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

On September 26, 2019, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on October 1, 2019 that enables the Company to purchase and cancel up to 2,663,275 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 27,956 common shares on a daily basis until September 30, 2020, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to October 1, 2019, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids"). During the six months ended December 31, 2019 and 2018, the Company did not repurchase any common shares under the Bids.

(c) *Stock Option Plan*

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

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007, 2009, 2015 and 2018). 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, the Performance and Restricted Share Unit Plan, and the Employee Share Purchase Plan (note 9(f)). On this basis, at December 31, 2019, the maximum number of common shares available under the Option Plan was 2,664,579 (June 30, 2019 – 3,325,110), of which 1,710,202 remained available for grant thereunder.

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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. Options are generally granted with a four year vesting period (25% vesting on each anniversary date).

The following table summarizes activity under the Option Plan for the six months ended December 31, 2019 and 2018:

	Six months ended December 31,			
	2019		2018	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	1,151,213	\$ 7.82	2,310,376	\$ 7.21
Exercised	(133,612)	7.38	(145,475)	6.71
Forfeited	(56,974)	7.50	(78,100)	7.74
Expired	(6,250)	7.10	(140,000)	7.99
Outstanding, end of period	954,377	\$ 7.91	1,946,801	\$ 7.17

(d) 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 2016, the Company's shareholders ratified the PRSU Plan (as amended in 2018). Under the PRSU Plan, the maximum number of common shares reserved for issuance is limited to 12% of the number of common shares outstanding, less the amount that are issuable under the Option Plan, the Employee Share Purchase Plan (note 9(f)), and the Phantom Share Unit Plan. On this basis, at December 31, 2019, 3,771,779 (June 30, 2019 – 3,754,154) common shares were eligible for grant under the PRSU Plan, of which 1,710,202 remained available for grant thereunder.

In addition, the Company has a Market-based PRSU Plan ("Market PRSU Plan"). Shares issued pursuant to the Market PRSU Plan will be acquired, at the Company's election, under the terms of permissible share buyback mechanisms, including the Company's Normal Course Issuer Bid, and will not be issued from treasury. At December 31, 2019, none of the outstanding PSUs or RSUs were issued pursuant to the Market PRSU Plan.

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

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9. SHARE CAPITAL (Continued)

Performance Share Units

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

The following table summarizes PSU activity under the PRSU Plan for the three months ended December 31, 2019 and 2018:

	Six months ended December 31,	
	2019	2018
	Number of units	Number of units
Outstanding, beginning of period	312,404	49,693
Granted	407,955	247,028
Exercised	(18,910)	-
Forfeited	(115,289)	(5,503)
Outstanding, end of period	586,160	291,218

Fair values – Performance Share Units

The total fair value of PSUs granted under the PRSU Plan in the six months ended December 31, 2019 was \$3,183,955 (2018 - \$1,187,334). The weighted average grant date fair value of PSUs granted during the six months ended December 31, 2019 was \$7.93 (2018 - \$4.83). At December 31, 2019, none of the outstanding PSUs had vested.

In the six months ended December 31, 2019, the Adjustment Factor related to the PSUs granted was related to the achievement of company-specific performance targets. 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 Company performance conditions.

In the six months ended December 31, 2018, the Adjustment Factors related to the PSUs issued granted were related to market-based performance conditions and, in some cases, to company-specific performance conditions. The fair value of the PSUs granted was estimated on the grant date using a Monte Carlo simulation model, taking into account the fair value of the Company's common shares on the date of grant, potential future dividends accruing to the PSU holder's benefit, and encompassing a wide range of possible future market and Company performance conditions.

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9. SHARE CAPITAL (Continued)

Restricted Share Units

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

The following table summarizes RSU activity under the PRSU Plan for the six months ended December 31, 2019 and 2018:

	Six months ended December	
	31,	
	2019	2018
	Number of	Number of
	units	units
Outstanding, beginning of period	1,282,298	1,111,359
Granted	830,702	751,868
Released	(466,007)	(210,903)
Forfeited	(171,576)	(117,416)
Outstanding, end of period	1,475,417	1,534,908

Fair values – Restricted Share Units

The total fair value of RSUs granted under the PRSU Plan in the six months ended December 31, 2019 was \$4,827,359 (2018 - \$4,346,594). The weighted average grant date fair value of RSUs granted during the six months ended December 31, 2019 was \$5.97 (2018 - \$5.95). At December 31, 2019, 46,160 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.

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9. SHARE CAPITAL (Continued)

(e) *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 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 six months ended December 31, 2019 and 2018:

	Six months ended December 31,	
	2019	2018
	Number of units	Number of units
Outstanding, beginning of period	340,862	351,418
Granted	13,600	7,072
Released	(48,312)	(89,580)
Forfeited	-	(3,625)
Outstanding, end of period	306,150	265,285

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the six months ended December 31, 2019 was \$48,123 (2018 - \$40,098). The weighted average grant date fair value of DSUs granted during the six months ended December 31, 2019 was \$6.81 (2018 - \$5.67). The fair value owing was marked to market at December 31, 2019, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$2,108,408 (June 30, 2019 - \$2,209,246).

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9. SHARE CAPITAL (Continued)

(f) Employee Share Purchase Plan and Share Ownership Plan

The Company's share-based compensation plans also include an Employee Share Purchase Plan. The original Employee Share Purchase Plan (the "Purchase Plan") was adopted in 2004. In the six months ended December 31, 2019, the Company's shareholders ratified a new Employee Share Ownership Plan (the "Ownership Plan").

The Purchase Plan allowed employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee could allocate an annual maximum of \$10,500 (in either U.S. dollars or Canadian dollars, depending on the employee's country of domicile) to the purchase of common shares through two six month offering periods per year. During the six months ended December 31, 2019, 35,963 common shares (2018 – 45,616 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$5.03 (2018 - \$4.44) per share. In addition, on January 13, 2020, 36,060 common shares were issued for the six month offering period ended December 31, 2019.

The terms of the Ownership Plan are largely consistent with those of the Purchase Plan, however, the maximum number of common shares issuable under the Ownership Plan is limited to 350,000. In addition, the maximum amount an employee can allocate to the purchase of common shares was increased to CAD\$15,000 per year. The Ownership Plan became effective January 1, 2020, and on that date, the Purchase Plan lapsed. Subsequent to the issuance of common shares on January 13, 2020 related to the six month offering period ended December 31, 2019, no further common shares will be issued pursuant to the Purchase Plan.

As a result, at December 31, 2019, 350,000 common shares were available for grant under the Ownership Plan.

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9. SHARE CAPITAL (Continued)

(g) Phantom Share Unit Plan

The Company's share-based compensation plans previously included a Phantom Share Unit ("PhSU") Plan. The PhSU Plan lapsed on December 8, 2017, and as such, at December 31, 2019, there are no common shares eligible for grant under this plan, and there were no outstanding PhSUs.

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

	Six months ended December 31, 2018
	Number of units
Outstanding, beginning of period	19,294
Granted	417
Released	(7,872)
Forfeited	(5)
Outstanding, end of period	<u>11,834</u>

The total fair value of PhSUs granted under the PhSU Plan in the six months ended December 31, 2018 was \$2,915. The weighted average grant date fair value of PhSUs granted during the six months ended December 31, 2018 was \$6.99.

(h) Dividends

In the six months ended December 31, 2019, the Company declared two quarterly dividends of CAD\$0.08 per share on its common shares, amounting to \$5,021,806. The dividends were paid in cash to shareholders on August 29, 2019 and November 29, 2019.

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9. SHARE CAPITAL (Continued)

(i) Share-based compensation

The Company's share-based compensation for the six months ended December 31, 2019 and 2018 was comprised as follows:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Restricted share units	\$ 791,099	\$ 938,197	\$ 1,556,044	\$ 1,749,497
Performance share units	174,348	90,139	365,138	138,714
Stock option plan	20,275	75,902	83,714	207,769
Employee share purchase plan	13,891	35,115	27,330	53,125
Deferred share unit plan	70,772	47,766	204,960	353,066
Phantom share unit plan	-	2,165	-	6,638
	\$ 1,070,385	\$ 1,189,284	\$ 2,237,186	\$ 2,508,809

The Company's share-based compensation was attributable to the following areas for the three and six months ended December 31, 2019 and 2018:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Cost of revenue	\$ 80,403	\$ 70,061	\$ 145,739	\$ 132,945
Sales and marketing	599,380	405,103	946,628	708,762
Research and development	242,297	310,893	501,544	611,435
General and administration	148,305	403,227	643,275	1,055,667
	\$ 1,070,385	\$ 1,189,284	\$ 2,237,186	\$ 2,508,809

(j) Treasury shares

During 2017, the Company acquired 104,567 treasury shares for a total cost of \$499,443. The treasury shares are presented as a component of shareholder's deficiency. The treasury shares were purchased in order to fund the Company's Market PRSU Plan (note 9(d)). In the six months ended December 31, 2019, 14,722 treasury shares were used to settle RSUs released pursuant to the Market PRSU Plan. As a result, at December 31, 2019, the Company held 60,942 treasury shares with a value of \$263,840.

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10. REVENUE

(a) Disaggregated revenue

The table below provides a disaggregation of our overall revenues for the three and six months ended December 31, 2019 and 2018:

	Three months ended December 31,		Six months ended December 31,	
	2019	2018	2019	2018
Cloud Services	\$ 23,845,687	\$ 22,499,250	\$ 47,447,901	\$ 44,811,888
Managed professional services	1,013,759	887,746	2,014,479	1,758,211
	24,859,446	23,386,996	46,462,380	46,570,099
Professional services	47,938	221,240	212,526	448,016
Other	890,230	838,065	1,775,197	1,731,751
	\$ 25,797,614	\$ 24,446,301	\$ 51,450,103	\$ 48,749,866

(b) Deferred revenue

The following table provides a reconciliation of deferred revenue balances to invoiced billings, revenue, and other adjustments for the six months ended December 31, 2019 and 2018:

	Six months ended December 31,	
	2019	2018
Balance, beginning of period	\$ 134,427,961	\$ 139,186,686
Billings	45,827,835	41,219,080
Revenue recognized	(51,450,104)	(48,749,866)
Balance, end of period	128,805,692	131,655,900
Less: current portion	(73,938,001)	(74,329,344)
	\$ 54,867,691	\$ 57,326,556

In the six months ended December 31, 2019, revenue recognized included \$45,325,533 (2018 – \$43,007,516) that was included in deferred revenue at the beginning of the period.

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10. REVENUE (Continued)

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

2020	\$ 45,222,904
2021	46,614,605
2022	24,327,604
2023	9,790,749
2024	2,622,220
2025	227,610
	<u>\$ 128,805,692</u>

11. 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, 2020.

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

	Three months ended December 31,		Six months ended December 31,	
	2019	2018	2019	2018
Current income tax recovery (expense)	\$ 35,000	\$ (903,000)	\$ (439,000)	\$ (1,915,000)
Deferred income tax (expense) recovery	(1,172,000)	257,000	(1,884,000)	563,000
	<u>\$ (1,137,000)</u>	<u>\$ (646,000)</u>	<u>\$ (2,323,000)</u>	<u>\$ (1,352,000)</u>

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11. INCOME TAXES (Continued)

Income tax expense for the three and six months ended December 31, 2019 and 2018 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended		Six months ended	
	December 31,		December 31,	
	2019	2018	2019	2018
Income before income taxes	\$ 3,847,334	\$ 2,408,958	\$ 8,484,548	\$ 4,378,629
Combined Federal and Provincial income tax rate	27.00%	27.00%	27.00%	27.00%
Tax expense at statutory rate	(1,038,780)	(650,419)	(2,290,828)	(1,182,230)
Permanent differences	(79,636)	(477)	(184,000)	(190,255)
Foreign income tax effected at lower rates	26,182	4,896	49,200	20,485
Impact on deferred income tax assets of changes in foreign exchange rates	65,000	-	35,000	-
Income applied to previously unrecognized tax assets	649	-	1,305	-
Amounts (under) over provided for in prior years	(110,415)	-	66,323	-
Total income tax expense	\$ (1,137,000)	\$ (646,000)	\$ (2,323,000)	\$ (1,352,000)

At December 31, 2019, the Company had total net deferred tax assets of \$22,835,561 (June 30, 2019 - \$22,359,165), primarily related to deferred revenue balances, current income tax receivable of \$108,777 (June 30, 2019 - \$707,923), primarily related to tax instalments paid, and current taxes payable of \$49,135 (June 30, 2019 - \$13,543) in other foreign jurisdictions. In the three and six months ended December 31, 2019 and 2018, the Company's current tax payable is partially offset by estimated investment tax credit ("ITC") receivable balances. The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

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

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

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12. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	December 31, 2019	June 30, 2019
Cash	\$ 12,204,403	\$ 10,118,438
Cash equivalents	6,747,021	8,572,101
	\$ 18,951,424	\$ 18,690,539

Other cash flow information

	Three months ended December 31,		Six months ended December 31,	
	2019	2018	2019	2018
Cash paid for income taxes	\$ 229,323	\$ 417,572	\$ 303,879	\$ 979,437
Cash received from income taxes	256,778	65,795	502,222	65,795
Cash paid for interest	126,727	-	257,928	-
<i>Non-cash investing and financing activities</i>				
Accrued purchases of property and equipment, net	\$ (395,430)	\$ 15,326	\$ 1,626,782	\$ 911,056

13. SEGMENTED INFORMATION

Entity wide disclosures

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

	Three months ended December 31,		Six months ended December 31,	
	2019	2018	2019	2018
Revenue				
United States	\$ 22,133,019	\$ 21,401,365	\$ 44,189,377	\$ 42,688,595
Rest of world	3,149,518	2,568,695	6,238,301	5,080,303
Canada	515,077	476,241	1,022,425	980,968
	\$ 25,797,614	\$ 24,446,301	\$ 51,450,103	\$ 48,749,866

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13. SEGMENTED INFORMATION (Continued)

	<u>December 31, 2019</u>	<u>June 30, 2019</u>
Long-lived assets		
Canada	\$ 13,261,941	\$ 7,940,003
United States and rest of world	<u>6,309,704</u>	<u>4,630,307</u>
	<u>\$ 19,571,645</u>	<u>\$ 12,570,310</u>

14. COMMITMENTS

The Company's minimum payments required under operating leases for equipment and business service agreements, for the years ended June 30, are as follows as at December 31, 2019:

2020	\$ 916,827
2021	874,643
2022	<u>453,967</u>
	<u>\$ 2,245,437</u>

15. CONTINGENCIES

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

16. SUBSEQUENT EVENTS

(a) Employee Share Purchase Plan

On January 13, 2020, 36,060 common shares were issued pursuant to the Employee Share Purchase Plan.

(b) Quarterly dividend

On January 20, 2020, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on February 28, 2020 to shareholders of record at the close of business on February 7, 2020.