

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and six months ended December 31, 2020 and 2019

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Financial Position

(Expressed in United States dollars unless otherwise noted) (Unaudited)

	Notes	December 31, 2020	June 30, 2020
ASSETS			
CURRENT			
Cash and cash equivalents	(Note 12)	\$ 131,624,219	\$ 29,727,498
Short-term investments	(Note 3)	359,832	17,350,152
Trade and other receivables	(Note 4)	22,287,648	28,990,235
Income tax receivable		545,291	111,769
Prepaid expenses and other		5,276,540	2,541,183
Contract acquisition assets – current	(Note 5)	8,323,010	7,501,339
		168,416,540	86,222,176
PROPERTY AND EQUIPMENT		4,435,336	5,563,327
RIGHT OF USE ASSETS	(Note 6)	11,359,960	9,181,927
DEFERRED INCOME TAX ASSETS	(Note 11)	22,357,305	22,278,745
CONTRACT ACQUISITION ASSETS	(Note 5)	6,274,576	5,842,845
GOODWILL		1,100,000	1,100,000
		\$ 213,943,717	\$ 130,189,020
LIABILITIES			
CURRENT			
Trade and other payables	(Note 7)	\$ 21,736,334	\$ 20,129,253
Income tax payable		22,777	382,041
Lease liabilities – current	(Note 8)	2,532,627	1,724,730
Deferred revenue – current	(Note 10(b))	86,028,052	80,843,795
		110,319,790	103,079,819
LEASE LIABILITIES	(Note 8)	10,433,103	8,411,101
DEFERRED REVENUE	(Note 10(b))	68,060,788	61,759,629
		188,813,681	173,250,549
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital	(Note 9(b))	147,976,213	81,890,311
Equity reserve		41,127,123	38,523,835
Treasury shares		(263,840)	(263,840)
Accumulated other comprehensive income		590,038	—
Deficit		(164,299,498)	(163,211,835)
		25,130,036	(43,061,529)
		\$ 213,943,717	\$ 130,189,020

SUBSEQUENT EVENTS (Note 15)

Approved on behalf of the Board on February 8, 2021:

(signed) "Daniel P. Ryan"

Daniel P. Ryan, Director

(signed) "Lynn Atchison"

Lynn Atchison, Director

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Operations and Comprehensive Income

Three and six months ended December 31, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

Notes	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
REVENUE	\$ 29,857,255	\$ 25,797,614	\$ 58,352,812	\$ 51,450,103
COST OF REVENUE	3,355,200	3,022,265	6,470,607	6,255,632
GROSS MARGIN	26,502,055	22,775,349	51,882,205	45,194,471
OPERATING EXPENSES				
Sales and marketing	10,190,776	9,521,739	20,274,315	19,040,524
Research and development	5,824,261	4,185,723	10,885,955	7,925,309
General and administration	4,855,655	4,111,620	8,298,684	7,436,477
Share-based compensation (Note 9(h))	2,553,776	1,070,385	5,146,781	2,237,186
	23,424,468	18,889,467	44,605,735	36,639,496
OPERATING INCOME	3,077,587	3,885,882	7,276,470	8,554,975
OTHER EXPENSE				
Finance income, net	3,429	128,605	25,365	240,746
Interest expense – lease liabilities	(142,685)	(126,727)	(281,334)	(257,928)
Foreign exchange loss	(299,711)	(40,426)	(485,938)	(53,245)
	(438,967)	(38,548)	(741,907)	(70,427)
NET INCOME BEFORE INCOME TAXES	2,638,620	3,847,334	6,534,563	8,484,548
INCOME TAX EXPENSE (Note 11)	(736,000)	(1,137,000)	(2,030,000)	(2,323,000)
NET INCOME	1,902,620	2,710,334	4,504,563	6,161,548
UNREALIZED GAIN ON DERIVATIVES, NET OF TAX	559,811	—	590,038	—
COMPREHENSIVE INCOME	\$ 2,462,431	\$ 2,710,334	\$ 5,094,601	\$ 6,161,548
BASIC INCOME PER SHARE	\$ 0.04	\$ 0.06	\$ 0.10	\$ 0.15
DILUTED INCOME PER SHARE	\$ 0.04	\$ 0.06	\$ 0.09	\$ 0.14
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING,				
BASIC	48,982,816	41,722,849	45,801,889	41,723,856
DILUTED	52,246,460	43,859,350	49,065,830	43,848,893

See accompanying notes to the Interim Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in United States dollars unless otherwise noted) (Unaudited)

	Share Capital				Accumulated Other Comprehensive Income	Deficit	Total
	Number of Common shares	Amount	Equity reserve	Treasury shares			
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 ("Prior ESOP")	35,963	180,842	—	—	—	—	180,842
Shares issued under Performance and Restricted Share Unit plan ("RSU")	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)
Shares issued on options exercised	150,406	1,149,183	(254,527)	—	—	—	894,656
Shares issued under Prior ESOP	36,060	188,230	—	—	—	—	188,230
Shares issued under RSU	56,425	301,671	(301,671)	—	—	—	—
Shares repurchased and cancelled	(8,700)	(15,909)	—	—	—	(32,919)	(48,828)
Share-based compensation	—	—	2,958,164	—	—	—	2,958,164
Dividends paid	—	—	—	—	—	(5,013,177)	(5,013,177)
Net income and total comprehensive income	—	—	—	—	—	4,473,161	4,473,161
BALANCE, JUNE 30, 2020	42,535,495	81,890,311	38,523,835	(263,840)	—	(163,211,835)	(43,061,529)
Shares issued for cash (Note 9(b))	6,272,727	68,999,997	—	—	—	—	68,999,997
Share issuance cost	—	(5,120,793)	—	—	—	—	(5,120,793)
Shares issued on options exercised	75,244	557,956	(106,708)	—	—	—	451,248
Shares issued under Employee Stock Ownership Plan	30,508	165,662	—	—	—	—	165,662
Shares issued under RSU	263,725	1,483,080	(1,483,080)	—	—	—	—
Share-based compensation	—	—	4,193,076	—	—	—	4,193,076
Dividends paid	—	—	—	—	—	(5,592,226)	(5,592,226)
Net income and total comprehensive income	—	—	—	—	590,038	4,504,563	5,094,601
BALANCE, DECEMBER 31, 2020	49,177,699	\$ 147,976,213	\$ 41,127,123	\$ (263,840)	\$ 590,038	\$ (164,299,498)	\$ 25,130,036

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, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2020	2019	2020	2019
OPERATING ACTIVITIES					
Net income		\$ 1,902,620	\$ 2,710,334	\$ 4,504,563	\$ 6,161,548
Items not involving cash					
Depreciation of property and equipment		811,436	846,050	1,677,649	1,671,194
Amortization of right of use assets	(Note 6)	606,691	413,336	1,096,502	826,673
Amortization of contract acquisition assets	(Note 5)	2,632,390	2,103,603	5,172,455	4,352,898
Share-based compensation	(Note 9(h))	2,553,776	1,070,385	5,146,781	2,237,186
Deferred income taxes	(Note 11)	(594,560)	(108,615)	(78,560)	(476,396)
Interest		272,932	(100,165)	244,269	(199,272)
Unrealized foreign exchange loss		325,119	65,631	481,683	56,840
Change in non-cash working capital					
Trade and other receivables		1,657,214	(555,165)	6,702,588	5,962,202
Income tax receivable		(409,634)	84,406	(433,522)	599,146
Prepaid expenses and other		(1,205,136)	808,900	(2,735,357)	1,162,717
Contract acquisition assets incurred	(Note 5)	(3,586,236)	(1,669,443)	(6,425,857)	(3,092,689)
Trade and other payables		3,017,263	(1,251,078)	1,753,183	(3,813,540)
Income tax payable		(135,115)	21,932	(359,264)	35,592
Accrued warranty		(83,409)	(290,085)	(115,000)	(210,585)
Deferred revenue		5,644,921	(1,976,458)	11,485,416	(5,622,269)
CASH FROM OPERATING ACTIVITIES		13,410,272	2,173,568	28,117,529	9,651,245
INVESTING ACTIVITIES					
Purchase of property and equipment		(147,523)	(713,409)	(1,093,394)	(2,362,562)
Proceeds from maturities of short-term investments		6,594,202	16,410,000	17,027,384	23,280,000
Purchase of short-term investments		—	(13,796,274)	—	(25,581,776)
CASH FROM (USED IN) INVESTING ACTIVITIES		6,446,679	1,900,317	15,933,990	(4,664,338)
FINANCING ACTIVITIES					
Dividends paid	(Note 9(g))	(3,011,850)	(2,512,563)	(5,592,226)	(5,021,806)
Issuance of common shares	(Note 9(b))	69,325,213	905,135	69,701,544	1,056,261
Cost of common share issuance		(5,120,793)	—	(5,120,793)	—
Payment of lease liabilities	(Note 8)	(746,693)	(417,862)	(1,207,653)	(827,727)
CASH FROM (USED IN) FINANCING ACTIVITIES		60,445,877	(2,025,290)	57,780,872	(4,793,272)
FOREIGN EXCHANGE EFFECT ON CASH		25,561	78,181	64,330	67,250
INCREASE IN CASH AND CASH EQUIVALENTS		80,328,389	2,126,776	101,896,721	260,885
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		51,295,830	16,824,648	29,727,498	18,690,539
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$131,624,219	\$ 18,951,424	\$131,624,219	\$ 18,951,424

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, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

1. NATURE OF OPERATIONS

Absolute Software Corporation (the “Company”) was incorporated under the predecessor statute of the British Columbia *Business Corporation Act* on November 24, 1993. The Company’s principal business activity is the development, marketing, and provision of a cloud-based service that supports the management and security of computing devices, applications, and data for a variety of organizations globally. The Company’s differentiated technology is rooted in its patented Persistence® technology, which is embedded in the firmware of laptop, desktop, and tablet devices by almost every major global computer manufacturer. Enabling a permanent digital tether between the endpoint and the organization that distributed it, the Company provides IT and security personnel with connectivity, visibility, and control, whether a device is on or off the corporate network, and empower them with Self-Healing Endpoint™ security to ensure mission critical applications remain healthy and deliver intended value. 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, the Middle East and 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 and the Nasdaq under the symbol “ABST”.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These unaudited interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, as issued by the International Accounting Standards Board (“IASB”). These unaudited interim condensed consolidated financial statements are prepared on a basis consistent with the accounting policies disclosed in the audited consolidated financial statements for the fiscal year ended June 30, 2020.

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, 2020. 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, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) 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(c)), 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 revenues; and
- iii) the determination of the Standalone Selling Price of its professional services revenues.

(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 assessment of the Company's incremental borrowing rate related to the recognition of lease liabilities;
- the assessment of renewal and termination options related to the recognition of right of use assets and lease liabilities;
- the inputs used in accounting for share-based compensation in the statement of operations and comprehensive income;
- the recognition and recoverability of the Company's deferred tax assets; and
- the evolving and future impacts of the global COVID-19 pandemic.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Adoption of Future Accounting Standards

Certain pronouncements have been issued by the IASB that are issued but not yet effective. There are currently no such pronouncements that are expected to have a significant impact on the Company's consolidated financial statements upon adoption.

3. SHORT-TERM INVESTMENTS

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

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Investment grade securities	\$ —	\$ 16,990,320
Term deposits	<u>359,832</u>	<u>359,832</u>
	<u>\$ 359,832</u>	<u>\$ 17,350,152</u>

4. TRADE AND OTHER RECEIVABLES

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

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Trade receivables	\$ 21,443,617	\$ 28,882,013
Other receivables	1,159,127	423,318
Allowance for doubtful accounts	<u>(315,096)</u>	<u>(315,096)</u>
	<u>\$ 22,287,648</u>	<u>\$ 28,990,235</u>

At December 31, 2020, 2% of the Company's accounts receivable balance is over 90 days past due (June 30, 2020 – 1%). As at December 31, 2020, 45%, 28%, and 8% (June 30, 2020 – 55%, 16%, and 16%) 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 unless otherwise noted) (Unaudited)

5. CONTRACT ACQUISITION ASSETS

The following table provides a reconciliation of contract acquisition assets for the six months ended December 31, 2020 and the year ended June 30, 2020:

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Balance, beginning of period	\$ 13,344,184	\$ 11,905,831
Contract acquisition costs incurred	6,425,857	10,032,390
Amortization	<u>(5,172,455)</u>	<u>(8,594,037)</u>
Balance, end of period	14,597,586	13,344,184
Less: current portion	<u>(8,323,010)</u>	<u>(7,501,339)</u>
	<u>\$ 6,274,576</u>	<u>\$ 5,842,845</u>

6. RIGHT OF USE ASSETS

The following table provides a reconciliation of right of use assets for the six months ended December 31, 2020 and the year ended June 30, 2020:

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Balance, beginning of period	\$ 9,181,927	\$ 8,917,373
Additions	3,274,535	2,194,817
Amortization	<u>(1,096,502)</u>	<u>(1,930,263)</u>
Balance, end of period	<u>\$ 11,359,960</u>	<u>\$ 9,181,927</u>

7. TRADE AND OTHER PAYABLES

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

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Payroll and employee benefits	\$ 7,990,341	\$ 9,669,919
Trade payables	3,865,155	4,173,555
Deferred share units	3,821,711	3,684,643
Customer deposits	4,157,053	1,686,813
Accrued liabilities	1,630,854	527,374
Accrued warranty	18,000	133,000
Sales taxes payable	253,220	253,949
	<u>\$ 21,736,334</u>	<u>\$ 20,129,253</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three and six months ended December 31, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

8. LEASE LIABILITIES

The following table provides a reconciliation of lease liabilities for the six months ended December 31, 2020 and the year ended June 30, 2020:

	December 31, 2020	June 30, 2020
Balance, beginning of period	\$ 10,135,831	\$ 9,699,651
Addition	3,274,535	2,465,218
Principal payments on lease liabilities	(1,207,653)	(2,351,819)
Interest payments on lease liabilities	281,334	619,398
Unrealized foreign exchange loss on lease liabilities	481,683	(296,617)
Balance, end of period	\$ 12,965,730	\$ 10,135,831
Less: current portion	(2,532,627)	(1,724,730)
	<u>\$ 10,433,103</u>	<u>\$ 8,411,101</u>

9. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

(b) *Issued and outstanding*

On October 30, 2020, the Company completed an underwritten public offering in the United States of America and Canada of 6,272,727 common shares at a price of \$11.00 per common share, for aggregate gross proceeds of \$68,999,997. Costs of the underwriting fees and expenses were \$5,120,793.

During the six months ended December 31, 2020, the Company issued 75,244 common shares on exercise of employee stock options for total proceeds of \$451,248. An amount of \$106,708 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, 2020, the Company issued 30,508 common shares pursuant to its Employee Share Ownership Plan (the "ESOP") for total proceeds of \$165,662.

During the six months ended December 31, 2020, the Company issued 263,725 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a fair value of \$1,483,080.

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, 2020 and 2019

(Expressed in United States dollars unless otherwise noted) (Unaudited)

9. SHARE CAPITAL (Continued)

During the six months ended December 31, 2019, the Company issued 35,963 common shares pursuant to its prior employee share ownership plan (the “Prior ESOP”) for total proceeds of \$180,842.

During the six months ended December 31, 2019, the Company issued 483,927 common shares pursuant to its PRSU Plan with a fair value of \$2,493,580.

(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 Company’s other stock-based compensation plans (note 9(f)). On this basis, at December 31, 2020, the maximum number of common shares available under the Option Plan was 2,656,697 (June 30, 2020 – 2,324,924), of which 1,942,570 remained available for grant thereunder.

Terms and conditions of options granted under the Option Plan are determined solely by the Board of Directors, in accordance with the Option Plan. 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, 2020 and 2019:

	Six months ended December 31,			
	2020		2019	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	791,171	\$ 7.87	1,151,213	\$ 7.82
Exercised	(75,244)	7.98	(133,612)	7.38
Forfeited	(1,800)	7.46	(56,974)	7.50
Expired	—	—	(6,250)	7.10
Outstanding, end of period	714,127	\$ 7.86	954,377	\$ 7.91

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Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars unless otherwise noted) (Unaudited)

9. SHARE CAPITAL (Continued)

(d) Performance and Restricted Share Unit Plan

The Company's share-based compensation plans also include a 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 Company's other stock-based compensation plans (note 9(f)), and the Phantom Share Unit Plan. On this basis, at December 31, 2020, 2,766,113 (June 30, 2020 – 3,963,088) common shares were eligible for grant under the PRSU Plan, of which 1,942,570 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 and will not be issued from treasury.

Terms and conditions of PSUs and RSUs granted are determined by the Board of Directors in accordance with the PRSU Plan.

Performance Share Units

Under the PRSU Plan, PSUs are issued to eligible persons and typically 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 six months ended December 31, 2020 and 2019:

	Six months ended December 31,	
	2020	2019
	Number of units	Number of units
Outstanding, beginning of period	617,373	312,404
Granted	220,531	407,955
Exercised	—	(18,910)
Forfeited	(14,361)	(115,289)
Outstanding, end of period	823,543	586,160

None of the outstanding PSUs at December 31, 2020 were issued pursuant to the Market PRSU Plan.

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Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars unless otherwise noted) (Unaudited)

9. SHARE CAPITAL (Continued)

Fair values – Performance Share Units

The total fair value of PSUs granted under the PRSU Plan in the six months ended December 31, 2020 was \$2,591,755 (2019 - \$3,183,955). The weighted average grant date fair value of PSUs granted during the six months ended December 31, 2020 was \$12.14 (2019 - \$7.93). At December 31, 2020, 17,571 of the outstanding PSUs had vested.

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

Restricted Share Units

Under the PRSU Plan, RSUs are issued to eligible persons and typically vest in tranches 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, 2020 and 2019:

	Six months ended December 31,	
	2020	2019
	Number of units	Number of units
Outstanding, beginning of period	1,811,963	1,282,298
Granted	601,944	830,702
Released	(263,725)	(466,007)
Forfeited	(48,591)	(171,576)
Outstanding, end of period	<u>2,101,591</u>	<u>1,475,417</u>

None of the outstanding RSUs at December 31, 2020 were issued pursuant to the Market PRSU Plan

Fair values – Restricted Share Units

The total fair value of RSUs granted under the PRSU Plan in the six months ended December 31, 2020 was \$6,631,726 (2019 - \$4,827,359). The weighted average grant date fair value of RSUs granted during the six months ended December 31, 2020 was \$11.39 (2019 - \$5.97). At December 31, 2020, 294,019 of the outstanding RSUs had vested.

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9. SHARE CAPITAL (Continued)

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.

(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, 2020 and 2019:

	Six months ended December 31,	
	2020	2019
	Number of	Number of
	units	units
Outstanding, beginning of period	377,612	340,862
Granted	3,905	13,600
Released	(60,365)	(48,312)
Outstanding, end of period	321,152	306,150

Fair values – Deferred Share Units

The total fair value of DSUs granted under the DSU Plan in the six months ended December 31, 2020 was \$40,271 (2019 - \$48,123). The weighted average grant date fair value of DSUs granted during the six months ended December 31, 2020 was \$10.31 (2019 - \$6.81). The fair value owing was marked to market at December 31, 2020, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$3,821,711 (June 30, 2020 - \$3,684,643).

(f) *Employee Share Ownership Plan and Prior ESOP*

The Company's share-based compensation plans also include the ESOP.

In 2020, the Company's shareholders ratified the ESOP. Previous to December 31, 2019, the Company had the Prior ESOP, which was adopted in 2004.

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9. SHARE CAPITAL (Continued)

The terms of the ESOP allow employees to purchase up to 350,000 common shares from treasury at a 15% discount from the market price. Each employee can allocate an annual maximum of CAD \$15,000 per year to the purchase of common shares through two, six month offering periods per year. The ESOP became effective January 1, 2020, and on that date, the Prior ESOP lapsed.

During the six months ended December 31, 2020, 30,508 common shares (2019 – 35,963 common shares under the Prior ESOP) were issued from treasury under the ESOP at a weighted average price of \$5.43 (2019 - \$5.03) per share. In addition, on January 28, 2021, 37,581 common shares were issued for the six month offering period ended December 31, 2020.

As a result, at December 31, 2020, 319,492 common shares were available for grant under the ESOP.

(g) Dividends

In the six months ended December 31, 2020, the Company declared two quarterly dividends of CAD\$0.08 per share on its common shares, amounting to \$5,592,226. The dividends were paid in cash to shareholders of record at the close of business on August 12, 2020 and November 13, 2020, respectively.

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.

(h) Share-based compensation

The Company's share-based compensation for the three and six months ended December 31, 2020 and 2019 was comprised as follows:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
Restricted share units	\$ 1,635,959	\$ 791,099	\$ 3,252,702	\$ 1,556,044
Performance share units	418,889	174,348	817,444	365,138
Stock option plan	30,648	20,275	63,184	83,714
Employee share purchase plan	47,018	13,891	59,744	27,330
Deferred share unit plan	421,262	70,772	953,707	204,960
	\$ 2,553,776	\$ 1,070,385	\$ 5,146,781	\$ 2,237,186

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9. SHARE CAPITAL (Continued)

The Company's share-based compensation was attributable to the following areas for the three and six months ended December 31, 2020 and 2019:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
Cost of revenue	\$ 363,252	\$ 80,403	\$ 647,733	\$ 145,739
Sales and marketing	801,212	599,380	1,640,578	946,628
Research and development	384,130	242,297	770,489	501,544
General and administration	1,005,182	148,305	2,087,981	643,275
	\$ 2,553,776	\$ 1,070,385	\$ 5,146,781	\$ 2,237,186

(i) 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 pursuant to a TSX Normal Course Issuer Bid order to fund the Company's Market PRSU Plan (note 9(d)). At December 31, 2020, the Company held 60,942 treasury shares with a cost of \$263,840 (2019 - \$263,840).

10. REVENUE

(a) Disaggregated revenue

The table below provides a disaggregation of our overall revenues for the three and six months ended December 31, 2020 and 2019:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
Cloud services	\$ 27,667,839	\$ 23,845,687	\$ 54,047,416	\$ 47,447,901
Managed services	1,255,801	1,013,759	2,466,529	2,014,479
	28,923,640	24,859,446	56,513,945	49,462,380
Professional services	48,616	47,938	90,826	212,526
Other	884,999	890,230	1,748,041	1,775,197
	\$ 29,857,255	\$ 25,797,614	\$ 58,352,812	\$ 51,450,103

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10. REVENUE (Continued)

(b) Deferred revenue

The following table provides a reconciliation of deferred revenue balances to invoiced billings, revenue, and other adjustments for the six months ended December 31, 2020 and 2019, and comparative balance sheet information for the year ended June 30, 2020:

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Balance, beginning of period	\$ 142,603,424	\$ 134,427,961
Billings	69,838,228	112,846,232
Revenue recognized	(58,352,812)	(104,670,769)
Balance, end of period	154,088,840	142,603,424
Less: current portion	(86,028,052)	(80,843,795)
	<u>\$ 68,060,788</u>	<u>\$ 61,759,629</u>

In the six months ended December 31, 2020, revenue recognized included \$48,790,136 (2019 – \$45,325,533) that was included in deferred revenue at the beginning of the period.

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

2021	\$ 52,291,413
2022	55,771,824
2023	31,064,820
2024	11,690,940
2025	3,269,843
	<u>\$ 154,088,840</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.

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11. INCOME TAXES (Continued)

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

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
Current income tax recovery (expense)	\$ (1,537,000)	\$ 35,000	\$ (2,666,000)	\$ (439,000)
Deferred income tax (expense) recovery	801,000	(1,172,000)	636,000	(1,884,000)
	\$ (736,000)	\$ (1,137,000)	\$ (2,030,000)	\$ (2,323,000)

Income tax expense for the three and six months ended December 31, 2020 and 2019 differs from that calculated by applying statutory rates for the following reasons:

	Three months ended December 31,		Six months ended December 31,	
	2020	2019	2020	2019
Income before income taxes	\$ 2,638,620	\$ 3,847,334	\$ 6,534,563	\$ 8,484,548
Combined Federal and Provincial income tax rate	27.00%	27.00%	27.00%	27.00%
Expected tax expense at statutory rate	(712,427)	(1,038,780)	(1,764,332)	(2,290,828)
Permanent differences	(79,952)	(79,636)	(361,348)	(184,000)
Foreign income tax effected at lower rates	10,972	26,182	15,043	49,200
Impact on deferred income tax assets of changes in foreign exchange rates	45,000	65,000	79,000	35,000
Income applied to previously unrecognized tax assets	407	649	1,637	1,305
Amounts (under) over provided for in prior years	—	(110,415)	—	66,323
Total income tax expense	\$ (736,000)	\$ (1,137,000)	\$ (2,030,000)	\$ (2,323,000)

At December 31, 2020, the Company had total net deferred tax assets of \$22,357,305 (June 30, 2020 - \$22,278,745), primarily related to deferred revenue balances, current income tax receivable of \$545,291 (June 30, 2020 - \$111,769), primarily related to tax instalments paid, and current taxes payable of \$22,777 (June 30, 2020 - \$382,041) in other foreign jurisdictions. In the three and six months ended December 31, 2020 and 2019, 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

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11. INCOME TAXES (Continued)

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.

12. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Cash	\$ 117,717,715	\$ 24,672,338
Cash equivalents	13,906,504	5,055,160
	<u>\$ 131,624,219</u>	<u>\$ 29,727,498</u>

Other cash flow information

	<u>Three months ended</u> <u>December 31,</u>		<u>Six months ended</u> <u>December 31,</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Cash paid (received) for income taxes	\$ 972,817	\$(170,887)	\$ 1,541,455	\$ (27,456)
Cash paid for interest	\$ —	\$ 126,727	\$ —	\$ 257,928
<i>Non-cash investing and financing activities</i>				
Accrued purchases of property and equipment, net	\$ (8,585)	\$ (395,430)	\$ 543,737	\$ 1,626,782

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13. FINANCIAL INSTRUMENTS

The fair value and notional amount of derivative financial instruments outstanding are comprised of the following:

	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Cash	\$ 117,717,715	\$ 24,672,338
Cash equivalents	13,906,504	5,055,160
	<u>\$ 131,624,219</u>	<u>\$ 29,727,498</u>

	<u>Derivative Assets</u>	
	<u>December 31, 2020</u>	<u>June 30, 2020</u>
Fair value of derivatives designated as cash flow hedges	\$ 590,038	\$ —
Notional amount	\$ 14,700,000	\$ —

During the six months ended December 31, 2020, \$119,955 (December 31, 2019 - \$nil) in hedging gains have been recognized in operating expenses. The fair values of derivative assets are measured using Level 2 fair value inputs. Derivative assets are included in trade and other receivables.

(a) Foreign exchange

The Company enters into foreign exchange forward contracts to minimize its exposure to foreign exchange rate risks. These contracts have been designated as cash flow hedges. The maturity dates of these instruments range from January 2021 to August 2021. As at December 31, 2020, the net unrealized gain on these forward contracts was \$590,038 (June 30, 2020 – \$nil). Unrealized gains were recorded in trade and other receivables and other comprehensive income (“OCI”). As at December 31, 2020, the Company estimates that 100% of net unrealized gains/losses on these forward contracts will be reclassified into income (loss) within the next twelve months.

For the three and six months ended December 31, 2020, a gain of \$559,811 and \$590,038 respectively relating to the effective portion was recognized in OCI and there was \$nil reclassified from OCI into income relating to the ineffective portion.

(b) Credit risk

The Company is exposed to credit risk on derivative financial instruments arising from the potential for counterparties to default on their contractual obligations. The Company mitigates this risk by limiting counterparties to highly rated financial institutions and by continuously monitoring their creditworthiness. The Company’s exposure to credit loss and market risk will vary over time as a function of currency exchange rates. The Company measures its counterparty credit exposure as a percentage of the total fair value of the applicable derivative instruments. Where the net fair value of derivative instruments with any counterparty is negative, the Company deems the credit exposure to that counterparty to be \$nil. As at December 31, 2020, the Company had a credit risk exposure to counterparties with outstanding or unsettled foreign

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13. FINANCIAL INSTRUMENTS (Continued)

exchange derivative instruments of \$590,038 on a notional amount of \$14,700,000 relating to derivative assets (June 30, 2020 – \$nil).

14. 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,	
	2020	2019	2020	2019
Revenue				
United States	\$ 24,907,538	\$ 22,133,019	\$ 49,011,856	\$ 44,189,377
Rest of world	4,457,680	3,149,518	8,290,675	6,238,301
Canada	492,037	515,077	1,050,281	1,022,425
	\$ 29,857,255	\$ 25,797,614	\$ 58,352,812	\$ 51,450,103

	December 31, 2020	June 30, 2020
Long-lived assets		
Canada	\$ 10,838,605	\$ 12,201,188
United States and rest of world	12,331,267	9,486,911
	\$ 23,169,872	\$ 21,688,099

15. SUBSEQUENT EVENTS

(a) *Employee Share Purchase Plan*

On January 29, 2021, 37,581 common shares were issued pursuant to the Employee Share Purchase Plan.

(b) *Quarterly dividend*

On January 20, 2021, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on February 26, 2021 to shareholders of record at the close of business on February 12, 2021.