

*Consolidated Financial Statements of*

**ABSOLUTE SOFTWARE CORPORATION**

*As at June 30, 2018 and 2017*

# Independent Auditor's Report

To the Shareholders of Absolute Software Corporation

We have audited the accompanying consolidated financial statements of Absolute Software Corporation, which comprise the consolidated statements of financial position as at June 30, 2018 and 2017, and the consolidated statements of operations and comprehensive income (loss), consolidated statements of changes in shareholders' deficiency and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Absolute Software Corporation as at June 30, 2018 and 2017, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

*(signed)* <<"Deloitte LLP">>

Chartered Professional Accountants  
Vancouver, British Columbia  
August 13, 2018

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# ABSOLUTE SOFTWARE CORPORATION

## Consolidated Statements of Financial Position

June 30, 2018 and 2017

(Expressed in United States dollars)

|                                 | Notes        | June 30, 2018        | June 30, 2017        |
|---------------------------------|--------------|----------------------|----------------------|
| <b>ASSETS</b>                   |              |                      |                      |
| <b>CURRENT</b>                  |              |                      |                      |
| Cash and cash equivalents       |              | \$ 33,956,988        | \$ 32,511,093        |
| Short-term investments          |              | 372,316              | 366,789              |
| Trade and other receivables     | (Note 3)     | 17,302,871           | 19,460,872           |
| Income tax receivable           | (Note 11)    | 345,228              | 83,487               |
| Prepaid expenses and other      |              | 2,455,977            | 2,419,881            |
|                                 |              | <b>54,433,380</b>    | 54,842,122           |
| PROPERTY AND EQUIPMENT          | (Note 4)     | 5,962,829            | 6,304,152            |
| DEFERRED INCOME TAX ASSETS      | (Note 11)    | 23,318,605           | 22,286,804           |
| INTANGIBLE ASSETS AND GOODWILL  | (Note 5)     | 13,316,129           | 14,894,518           |
|                                 |              | <b>\$ 97,030,943</b> | <b>\$ 98,327,596</b> |
| <b>LIABILITIES</b>              |              |                      |                      |
| <b>CURRENT</b>                  |              |                      |                      |
| Trade and other payables        | (Note 6)     | \$ 13,676,397        | \$ 13,079,456        |
| Income tax payable              | (Note 11)    | 407,226              | -                    |
| Accrued warranty                | (Note 7)     | 270,000              | 570,000              |
| Deferred revenue – current      | (Note 8)     | 75,325,574           | 72,361,648           |
|                                 |              | <b>89,679,197</b>    | 86,011,104           |
| DEFERRED REVENUE                | (Note 8)     | 63,861,112           | 66,040,653           |
|                                 |              | <b>153,540,309</b>   | 152,051,757          |
| COMMITMENTS                     | (Note 16)    |                      |                      |
| CONTINGENCIES                   | (Note 18)    |                      |                      |
| <b>SHAREHOLDERS' DEFICIENCY</b> |              |                      |                      |
| Share capital                   | (Note 10(b)) | 68,362,445           | 64,875,130           |
| Equity reserve                  |              | 36,972,197           | 36,254,893           |
| Treasury shares                 | (Note 10(j)) | (359,973)            | (499,443)            |
| Deficit                         |              | (161,484,035)        | (154,354,741)        |
|                                 |              | <b>(56,509,366)</b>  | <b>(53,724,161)</b>  |
|                                 |              | <b>\$ 97,030,943</b> | <b>\$ 98,327,596</b> |

### SUBSEQUENT EVENTS (Note 19)

See accompanying notes to the Consolidated Financial Statements.

Approved on behalf of the Board:

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

(signed) "Josef Vejvoda"  
Josef Vejvoda, Director

# ABSOLUTE SOFTWARE CORPORATION

## Consolidated Statements of Operations and Comprehensive Income (Loss)

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

|  | Notes        | 2018                 | 2017           |
|--|--------------|----------------------|----------------|
| <b>REVENUE</b>   |              | <b>\$ 93,621,832</b> | \$ 91,210,550  |
| COST OF REVENUE  |              | <b>14,361,888</b>    | 14,450,858     |
| <b>GROSS MARGIN</b>  |              | <b>79,259,944</b>    | 76,759,692     |
| <b>OPERATING EXPENSES</b>  |              |                      |                |
| Sales and marketing  |              | <b>40,912,473</b>    | 44,381,582     |
| Research and development   |              | <b>20,054,992</b>    | 17,524,536     |
| General and administration   |              | <b>12,358,472</b>    | 12,851,255     |
| Share-based compensation   | (Note 10(i)) | <b>3,055,632</b>     | 3,971,161      |
|  |              | <b>76,381,569</b>    | 78,728,534     |
| <b>OPERATING INCOME (LOSS)</b>                                     |              | <b>2,878,375</b>     | (1,968,842)    |
| <b>OTHER EXPENSE</b>   |              |                      |                |
| Interest income, net   |              | <b>145,872</b>       | 81,546         |
| Foreign exchange loss  |              | <b>(164,394)</b>     | (119,881)      |
|  |              | <b>(18,522)</b>      | (38,335)       |
| <b>NET INCOME (LOSS) BEFORE INCOME TAXES</b>                       |              | <b>2,859,853</b>     | (2,007,177)    |
| INCOME TAX RECOVERY (EXPENSE)                                      | (Note 11)    | <b>251,000</b>       | (2,944,000)    |
| <b>NET INCOME (LOSS) AND TOTAL COMPREHENSIVE INCOME (LOSS)</b>     |              | <b>\$ 3,110,853</b>  | \$ (4,951,177) |
| <b>BASIC INCOME (LOSS) PER SHARE</b>                               | (Note 10(k)) | <b>\$ 0.08</b>       | \$ (0.13)      |
| <b>DILUTED INCOME (LOSS) PER SHARE</b>                             | (Note 10(k)) | <b>\$ 0.08</b>       | \$ (0.13)      |
| <b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC</b> | (Note 10(k)) | <b>40,028,465</b>    | 39,082,732     |

See accompanying notes to the Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in United States dollars)

|   | Share Capital           |                      | Equity reserve       | Treasury shares     | Deficit                 | Total                  |
|---|-------------------------|----------------------|----------------------|---------------------|-------------------------|------------------------|
|   | Number of Common shares | Amount               |                      |                     |                         |                        |
| <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                                  | 661,838                 | 4,039,782            | (1,313,196)          | -                   | -                       | 2,726,586              |
| 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 issued under Performance and Restricted Share Unit plan      | 7,104                   | 35,131               | (35,131)             | -                   | -                       | -                      |
| Shares repurchased and cancelled under the Normal Course Issuer Bid | (280,100)               | (449,848)            | -                    | -                   | (876,845)               | (1,326,693)            |
| Treasury shares repurchased under the Normal Course Issuer Bid      | -                       | -                    | -                    | (499,443)           | -                       | (499,443)              |
| Share-based compensation expense                                    | -                       | -                    | 3,152,251            | -                   | -                       | 3,152,251              |
| Dividends paid  | -                       | -                    | -                    | -                   | (9,476,850)             | (9,476,850)            |
| Net loss and total comprehensive loss                               | -                       | -                    | -                    | -                   | (4,951,177)             | (4,951,177)            |
| <b>BALANCE, JUNE 30, 2017</b>                                       | <b>39,681,749</b>       | <b>\$ 64,875,130</b> | <b>\$ 36,254,893</b> | <b>\$ (499,443)</b> | <b>\$ (154,354,741)</b> | <b>\$ (53,724,161)</b> |
| Shares issued on options exercised                                  | 334,750                 | 2,219,174            | (568,506)            | -                   | -                       | 1,650,668              |
| Shares issued under Employee Share Purchase Plan                    | 99,477                  | 440,714              | -                    | -                   | -                       | 440,714                |
| Shares issued under Phantom Share Unit plan                         | 50,812                  | 297,786              | (297,786)            | -                   | -                       | -                      |
| Shares issued under Performance and Restricted Share Unit plan      | 107,243                 | 602,822              | (751,474)            | 139,470             | -                       | (9,182)                |
| Shares repurchased and cancelled under the Normal Course Issuer Bid | (49,800)                | (73,181)             | -                    | -                   | (172,243)               | (245,424)              |
| Share-based compensation expense                                    | -                       | -                    | 2,335,070            | -                   | -                       | 2,335,070              |
| Dividends paid  | -                       | -                    | -                    | -                   | (10,067,904)            | (10,067,904)           |
| Net income and total comprehensive income                           | -                       | -                    | -                    | -                   | 3,110,853               | 3,110,853              |
| <b>BALANCE, JUNE 30, 2018</b>                                       | <b>40,224,231</b>       | <b>\$ 68,362,445</b> | <b>\$ 36,972,197</b> | <b>\$ (359,973)</b> | <b>\$ (161,484,035)</b> | <b>\$ (56,509,366)</b> |

See accompanying notes to the Consolidated Financial Statements.

**ABSOLUTE SOFTWARE CORPORATION**  
**Consolidated Statements of Cash Flows**  
Years ended June 30, 2018 and 2017  
(Expressed in United States dollars)

|  | Notes        | 2018                 | 2017           |
|--|--------------|----------------------|----------------|
| <b>OPERATING ACTIVITIES</b>                                  |              |                      |                |
| Net income (loss)  |              | \$ 3,110,853         | \$ (4,951,177) |
| Items not involving cash                                     |              |                      |                |
| Amortization of property and equipment                       | (Note 4)     | 3,215,924            | 2,971,483      |
| Amortization of acquired intangible assets                   | (Note 5)     | 51,250               | 204,676        |
| Amortization of intangible assets – contract costs and brand | (Note 5)     | 9,129,915            | 9,017,238      |
| Share-based compensation                                     | (Note 10(i)) | 2,335,070            | 3,971,161      |
| Deferred income taxes  | (Note 11)    | (1,031,801)          | 66,587         |
| Non-cash interest and amortization<br>of investment premium  |              | -                    | 468,452        |
| Change in non-cash working capital                           |              |                      |                |
| Trade and other receivables                                  |              | 2,158,001            | 1,677,479      |
| Income tax receivable  |              | (261,741)            | (3,450,524)    |
| Prepaid expenses and other                                   |              | (36,096)             | (40,647)       |
| Intangible assets – contract costs and brand additions       |              | (7,602,776)          | (8,642,571)    |
| Trade and other payables                                     |              | 589,445              | (800,721)      |
| Income tax payable   |              | 407,226              | -              |
| Accrued warranty   |              | (300,000)            | 110,000        |
| Deferred revenue   |              | 784,385              | 428,139        |
| <b>CASH FROM OPERATING ACTIVITIES</b>                        |              | <b>12,549,655</b>    | 1,029,575      |
| <b>INVESTING ACTIVITIES</b>                                  |              |                      |                |
| Purchase of property and equipment                           |              | (2,909,081)          | (4,287,421)    |
| Purchase of intangible assets                                |              | -                    | (160,000)      |
| Income taxes paid on disposal of business unit               |              | -                    | (2,623,890)    |
| Proceeds from sales and maturities of short-term investments |              | -                    | 13,218,146     |
| Proceeds from sale of investments                            |              | -                    | 10,405,000     |
| <b>CASH (USED IN) FROM INVESTING ACTIVITIES</b>              |              | <b>(2,909,081)</b>   | 16,551,835     |
| <b>FINANCING ACTIVITIES</b>                                  |              |                      |                |
| Dividends paid   | (Note 10(h)) | (10,067,904)         | (9,476,850)    |
| Repurchase of common shares for cancellation                 | (Note 10(b)) | (245,424)            | (1,326,693)    |
| Purchase of treasury shares                                  | (Note 10(j)) | -                    | (499,443)      |
| Issuance of common shares                                    | (Note 10(b)) | 2,151,073            | 3,127,733      |
| <b>CASH USED IN FINANCING ACTIVITIES</b>                     |              | <b>(8,162,255)</b>   | (8,175,253)    |
| <b>FOREIGN EXCHANGE EFFECT ON CASH</b>                       |              | <b>(32,424)</b>      | 12,084         |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>                 |              | <b>1,445,895</b>     | 9,418,241      |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>          |              | <b>32,511,093</b>    | 23,092,852     |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                |              | <b>\$ 33,956,988</b> | \$ 32,511,093  |

**SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 12)**

See accompanying notes to the Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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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 activity is the development, marketing and delivery of endpoint security and data risk management solutions to commercial, healthcare, education and government customers. The Company’s principal solution is the Absolute Platform, a software-as-a-service solution which enables customers to secure endpoints, asses risk, and respond to security threats. The Company’s solutions are powered by its proprietary and patented Persistence technology. The Company markets its solutions through device original equipment manufacturers (“OEMs”), distributors, value added resellers, and directly to its customers, who include corporations, government entities, educational institutions, and consumers. While the majority of the Company’s sales are generated in North America, the Company’s products are also available internationally through resellers in Europe, Australia, South Africa, South America, and 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 financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued and effective as of June 30, 2018. The date of approval by the Company’s Board of Directors is August 13, 2018. These consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical cost as discussed below.

#### (b) *Significant Accounting Policies*

##### *Principles of consolidation*

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies so as to obtain benefits from its activities, generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are consolidated from the date on which control is transferred to the group. Principal operating subsidiaries are:

- Absolute Software, Inc.
- Absolute Software (2015) Inc.
- Absolute Software EMEA Limited
- Absolute Software (Vietnam) Company Limited

All significant intercompany balances, transactions, revenues and expenses are eliminated.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Foreign currency transactions and translation*

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the “functional currency”). The consolidated financial statements are presented in United States dollars (“U.S. dollars”), which is the functional currency of the Company and the majority of its subsidiaries.

Foreign currency transactions, including Canadian dollar, U.K. pound, European Euro, and Vietnamese Dong operating transactions, are translated to U.S. dollars at the average exchange rate for the month, which approximates spot rates on transaction dates. Monetary assets and liabilities are translated at period-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Foreign exchange gains and losses are presented in the statement of operations within foreign exchange loss.

#### *Financial Instruments*

Financial assets and financial liabilities are initially recognized at fair value, normally being the transaction price plus directly attributable transaction costs. Transaction costs related to financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) are expensed immediately in profit or loss.

The Company’s classification and measurement basis of its financial instruments are as follows:

| <b>Instrument</b>   | <b>Classification</b> | <b>Measurement Basis</b> |
|---|-----------------------|--------------------------|
| Cash and cash equivalents   | Loans and receivables | Amortized cost           |
| Short-term investments – <i>interest-bearing securities (USD)</i> | Held to maturity      | Amortized cost           |
| Trade and other receivables                                       | Loans and receivables | Amortized cost           |
| Trade and other payables  | Other liabilities     | Amortized cost           |
| Accrued warranty  | Other liabilities     | Amortized cost           |



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Changes in items carried at fair value are recorded in the statement of operations. All amounts carried at amortized cost are calculated using the effective interest rate method.

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current arm's-length transaction between knowledgeable willing parties.

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The three levels of the fair value hierarchy are:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The fair value of investments designated as fair value through profit or loss is determined based on Level 1 measurements, and is recorded in the consolidated statement of financial position, with unrealized gains and losses, net of related income taxes, recorded in the statement of operations.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

#### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Short-term investments*

Short-term investments consist of highly liquid short-term interest bearing securities with maturities at the date of purchase of greater than three months, but less than one year, and of other marketable securities. Investments whose maturity dates are less than one year from the date of the statement of financial position are classified as short term. At June 30, 2018 and 2017, the Company's short-term investments were comprised entirely of term deposits.

#### *Trade and other receivables*

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment of trade accounts receivable. A provision for impairment of trade accounts receivable is established when there is a reasonable expectation that the Company will not be able to collect all amounts due. The carrying amount of the trade receivables is reduced through the use of the provision for impairment account, and the amount of any increase in the provision for impairment is recognized in the consolidated statement of operations. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade accounts receivable. Subsequent recoveries of amounts previously written off are credited to the consolidated statement of operations.

#### *Property and equipment*

Property and equipment are carried at cost, less accumulated amortization, and less any accumulated impairment loss. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When the cost of replacing part of an item of property and equipment is capitalized, the carrying amount of the replaced part is derecognized. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred.

On an annual basis, the assets' residual values and useful lives are reviewed, and adjusted if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

Amortization is calculated using the straight line method from the month of purchase over the following estimated useful lives:

| <b>Asset</b>            |                   |
|-------------------------|-------------------|
| Computer equipment      | 3 years           |
| Furniture and equipment | 5 years           |
| Computer software       | 1 to 3 years      |
| Office equipment        | 3 years           |
| Trade show equipment    | 2 years           |
| Leasehold improvements  | Term of the lease |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Intangible assets*

Intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values. Intangible assets related to the acquisition of patents from third parties are recorded at their fair values.

The Company sells fixed-length service contracts with prepaid terms ranging from one to five years. Sales commissions directly associated with sales contracts are deferred and amortized ratably to sales and marketing over the prepaid contract term in the consolidated statement of operations and comprehensive (loss) income.

Research costs are charged to operations when they are incurred. Development costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. At June 30, 2018, the Company has not capitalized any development costs.

All the Company's intangible assets have finite useful lives and are amortized using the straight line method over the following estimated useful lives:

| <b>Asset</b>      |                                  |
|-------------------|----------------------------------|
| Contract costs    | Average contract term            |
| Patents and other | Term of the patent or 4<br>years |
| Brand rights      | Average contract term            |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Goodwill*

Goodwill that arises upon business combinations is included in intangible assets and goodwill in the consolidated statement of financial position. After initial recognition, goodwill is measured at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired. No such losses have been recognized during the year.

The impairment test methodology is based on a comparison between the higher of fair value less costs to sell and value-in-use of each of the Company's cash generating units ("CGUs") and the net asset carrying values, including goodwill, of the Company's CGUs. An impairment loss is recognized if the carrying amount of a CGU exceeds its estimated recoverable amount.

#### *Impairment of assets*

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. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss, or any reversal of a previously-recognized impairment loss, is recognized immediately in profit or loss.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Accrued warranty*

The Company provides a service guarantee, or warranty, on certain of its theft recovery offerings. The warranty forms part of certain product offerings to which it is attached, and accordingly has a term matching that of the product offering. If a device equipped with a product that includes the recovery guarantee is stolen, and the Company is unable to either recover the stolen device, or delete data on it, then the customer may be eligible for a guarantee payment of up to \$1,000. In order to qualify for the warranty, the customer must comply with the Company's terms and conditions included in its End User License and Service Agreement, including the filing of a police report, amongst other criteria. The amount of the eligible warranty payment decreases in each year of the service contract and is also limited by the value of the stolen device.

At the end of each reporting period, estimates of future cash outflows under the service guarantee are made using the best information available for events up to the date of the consolidated statement of financial position. The carrying amount of the warranty liability is adjusted to those estimates, with changes recognized in the consolidated statement of operations and comprehensive (loss) income. The warranty liability is estimated based on a number of factors, including the volume of device thefts reported to the Company at each reporting date, an estimate of the number of thefts that have occurred but have not yet been reported as at each reporting date, the device theft recovery rate, and historical warranty experience. The liability balance is drawn down by service guarantee payments issued.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Income taxes*

The tax expense for the period comprises current and deferred income tax. Taxation is recognized in the consolidated statement of operations and comprehensive (loss) income except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

Current income tax is generally the expected income tax payable on the taxable income for the year calculated using rates enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries operate and generate taxable income, and includes any adjustment to income tax payable or recoverable in respect of previous years.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities; i.e., both liabilities and assets are recorded when probable at the Company's best estimate of the amount.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the date of the consolidated statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each date of the statement of financial position and amended to the extent that it is no longer probable that the related tax benefit will be realized.

Current income tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Normally the Company would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Company to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Revenue recognition*

The Company operates a cloud-based customer console, which leverages patented embedded self-healing Persistence technology residing on a customer's endpoint computing devices. The customer console allows a client to maintain visibility and control over its endpoints, and includes features such as reporting and analytics, geotechnology, risk assessment, risk response, and endpoint investigation and recovery. The Company provides access to the customer console to its clients on a subscription basis. Revenue represents the fair value of consideration received or receivable from clients for access to the customer console, net of discounts. Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the services have been delivered, and collectability is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue. Deferred revenue is comprised of the remaining unamortized balance of billings, and is generally recognized ratably over the remaining contract term.

The Company's principal source of revenue results from subscription fees for the Absolute Platform, with terms ranging from one to five years. Generally, the full value of each customer arrangement is invoiced and receivable upon execution of the contract, and initiation of the access to the Absolute Platform. Typically, revenue arrangements are comprised of multiple elements, as they include combinations of various features and maintenance and support services over the subscription term. These elements are typically not separable for accounting purposes, and as a result, revenue is recognized ratably over the subscription term. Direct contract acquisition costs associated with sales contracts are deferred and amortized over the same period (see "Intangible Assets" above).

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

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Cost of Revenue*

The primary components of cost of revenue are employee compensation and benefits, amortization of intangible assets, guarantee expenses, travel, services, and operating supplies.

#### *Sales and Marketing*

The primary components of sales and marketing are employee compensation and benefits, amortization of intangible assets, third-party marketing programs, office and communications, travel, and professional services.

#### *Research and development*

The primary components of research and development expenses are employee compensation and benefits, professional services, communications, travel, and investment tax credits.

#### *General and administration*

The primary components of general and administration are employee compensation and benefits, communications, travel, public company administration, insurance, professional services, and amortization of property and equipment.

#### *Share-based compensation plans*

The Company has a stock option plan, a phantom share unit plan, a performance and restricted share unit plan, a deferred share unit plan and an employee share purchase plan, which are described in Notes 10(c), 10(d), 10(e), 10(f) and 10(g). When stock or stock options are issued to employees, the Company records the estimated fair value of each vesting tranche of the share-based awards as compensation expense over the related vesting period of each tranche with a corresponding credit to equity reserve. The fair value of stock options is measured using the Black Scholes option pricing model. Phantom and restricted share units are measured using the fair value of the shares on the date of grant. Performance share units are measured 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 performance share unitholder's benefit, and encompassing a wide range of possible future market conditions, on the date of grant. Forfeitures are estimated on the date of grant and are re-assessed each reporting period. Upon exercise of stock options or purchase of common shares, any consideration paid by employees, together with the amount previously recorded in equity reserve, is credited to share capital. Volatility assumptions used in Black-Scholes option pricing models are based on historical averages.



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

An estimate of amounts that may be paid out in cash pursuant to the deferred share unit plan is recorded within accounts payable and accrued liabilities, and is marked to market each reporting date. If any amounts are ultimately paid out in cash, the amount is recorded using the daily weighted average share price for the five day period before the measurement date.

Under the employee share purchase plan, the share-based compensation charge is determined by the difference between the share purchase price and market price at the start of each purchase period.

#### *Income (loss) income per share*

Basic income (loss) per share is calculated by dividing net income by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share is calculated using the treasury stock method, which assumes that cash that would be received on the exercise of stock options is applied to purchase shares at the average price during the period. The difference between the shares issued on the exercise of the stock options and the number of shares purchased under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options are not considered in computing diluted income (loss) per share. Stock options are typically dilutive when the Company has income for the year and the average market price of the common shares during the year exceeds the exercise price of the options.

#### *(c) 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(d)), 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.

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

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 tangible and intangible assets;
- the inputs used in accounting for share-based compensation in the consolidated statement of operations and comprehensive income (loss); and
- the recognition and recoverability of the Company's deferred tax assets.

#### (e) *Adoption of Future Accounting Standards*

##### *Future Accounting Standards*

The IASB has issued the following amendments and new standards, which have not yet been adopted by the Company. The Company has not completed the process of assessing the impact that the amended and new standards will have on its consolidated financial statements or whether to early adopt any of the new requirements.

##### IFRS 9 – “Financial Instruments” (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss). IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The Company does not believe the adoption of IFRS 9 will have a material impact on its financial performance or its financial position.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### IFRS 15 – “Revenue from Contracts with Customers” (“IFRS 15”)

In May 2014, the IASB issued IFRS 15 supersedes IAS 18 – “Revenue”, IAS 11 – “Construction Contracts” and other interpretive guidance associated with revenue recognition. IFRS 15 provides a single, principles-based five-step model to be applied to all contracts with customers to determine how and when an entity should recognize revenue. The standard also provides guidance on whether revenue should be recognized at a point in time or over time as well as requirements for more informative, relevant disclosures. Various clarifications to IFRS 15 provide additional guidance with respect to the five-step analysis, transition, and the application of the Standard to licenses of intellectual property. IFRS 15 is effective for annual periods beginning on or after January 1, 2018 with earlier adoption permitted. The Company has substantially completed an implementation plan and will adopt IFRS 15 in its financial statements for the annual period beginning on July 1, 2018.

Based on its analysis, the Company has determined that its customer contracts currently accounted for ratably over the term of the subscription will meet the requirements for revenue recognition over time under IFRS 15, and as a result, the Company will continue to recognize subscription term revenues ratably over their term. The Company is completing its implementation plan and does not believe any other material adjustments will be required relating to the application of other aspects of IFRS 15, including contract modifications. The Company has also assessed the increased disclosure requirements pursuant to IFRS 15 and has ensured its internal information systems have been designed to support these enhanced disclosures. The Company will complete its analysis in the first quarter of fiscal 2019.

#### IFRS 16 – “Leases” (“IFRS 16”)

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

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. However, the new standard will result in the timing of lease expense recognition being accelerated for leases which would be currently accounted for as operating leases. The presentation on the consolidated statement of operations and comprehensive (loss) income required by the new standard will result in most lease expenses being presented as amortization of lease assets and financing costs arising from lease liabilities rather than as being a part of goods and services purchased.

The standard is effective for annual periods beginning on or after January 1, 2019 and will supersede IAS 17, “Leases”. The Company has not completed the process of assessing the impact that the amended standards will have on its consolidated financial statements.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 3. TRADE AND OTHER RECEIVABLES

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

|                                 | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|---------------------------------|----------------------|----------------------|
| Trade receivables               | \$ 17,168,774        | \$ 19,570,190        |
| Other receivables               | 416,464              | 185,837              |
| Allowance for doubtful accounts | <u>(282,367)</u>     | <u>(295,155)</u>     |
|                                 | <u>\$ 17,302,871</u> | <u>\$ 19,460,872</u> |

At June 30, 2018, 4% of the Company's accounts receivable balance is over 90 days past due (June 30, 2017 – 2%). As at June 30, 2018, 32%, 30%, 10%, and 10% (June 30, 2017 – 21%, 33%, 12%, and 6%) of the receivable balances are owing from four OEM and reseller partners. At June 30, 2017, a fifth partner represented 14% of outstanding receivables.

### 4. PROPERTY AND EQUIPMENT

|                         | <u>June 30, 2018</u> |                                     |                            |
|-------------------------|----------------------|-------------------------------------|----------------------------|
|                         | <u>Cost</u>          | <u>Accumulated<br/>Amortization</u> | <u>Carrying<br/>amount</u> |
| Computer equipment      | \$ 9,447,617         | \$ 6,284,217                        | \$ 3,163,400               |
| Furniture and equipment | 1,312,656            | 615,077                             | 697,579                    |
| Computer software       | 4,405,485            | 3,871,564                           | 533,921                    |
| Office equipment        | 2,009,426            | 1,728,049                           | 281,377                    |
| Trade show equipment    | 136,997              | 108,747                             | 28,250                     |
| Leasehold improvements  | 2,427,430            | 1,169,128                           | 1,258,302                  |
|                         | <u>\$ 19,739,611</u> | <u>\$ 13,776,782</u>                | <u>\$ 5,962,829</u>        |

|                         | <u>June 30, 2017</u> |                                     |                            |
|-------------------------|----------------------|-------------------------------------|----------------------------|
|                         | <u>Cost</u>          | <u>Accumulated<br/>Amortization</u> | <u>Carrying<br/>amount</u> |
| Computer equipment      | \$ 7,040,745         | \$ 4,574,148                        | \$ 2,466,597               |
| Furniture and equipment | 1,263,557            | 415,784                             | 847,773                    |
| Computer software       | 4,006,259            | 3,351,895                           | 654,364                    |
| Office equipment        | 1,940,320            | 1,439,105                           | 501,215                    |
| Trade show equipment    | 136,997              | 59,058                              | 77,939                     |
| Leasehold improvements  | 2,367,842            | 611,578                             | 1,756,264                  |
|                         | <u>\$ 16,755,720</u> | <u>\$ 10,451,568</u>                | <u>\$ 6,304,152</u>        |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 4. PROPERTY AND EQUIPMENT (continued)

The following table summarizes property and equipment activity for the year ended June 30, 2018:

|                         | Year ended June 30, 2018  |                     |                       |                          |
|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|
|                         | Carrying amount - opening | Additions           | Amortization          | Carrying amount - ending |
| Computer equipment      | \$ 2,466,597              | \$ 2,334,491        | \$ (1,637,688)        | \$ 3,163,400             |
| Furniture and equipment | 847,773                   | 83,882              | (234,076)             | 697,579                  |
| Computer software       | 654,364                   | 301,994             | (422,437)             | 533,921                  |
| Office equipment        | 501,215                   | 89,418              | (309,256)             | 281,377                  |
| Trade show equipment    | 77,939                    | -                   | (49,689)              | 28,250                   |
| Leasehold improvements  | 1,756,264                 | 64,816              | (562,778)             | 1,258,302                |
|                         | <b>\$ 6,304,152</b>       | <b>\$ 2,874,601</b> | <b>\$ (3,215,924)</b> | <b>\$ 5,962,829</b>      |

The following table summarizes property and equipment activity for the year ended June 30, 2017:

|                         | Year ended June 30, 2017  |                     |                       |                          |
|-------------------------|---------------------------|---------------------|-----------------------|--------------------------|
|                         | Carrying amount - opening | Additions           | Amortization          | Carrying amount - ending |
| Computer equipment      | \$ 2,311,798              | \$ 1,673,748        | \$ (1,518,949)        | \$ 2,466,597             |
| Furniture and equipment | 1,009,225                 | 46,367              | (207,819)             | 847,773                  |
| Computer software       | 910,259                   | 457,572             | (713,467)             | 654,364                  |
| Office equipment        | 476,321                   | 116,858             | (91,964)              | 501,215                  |
| Trade show equipment    | -                         | 99,377              | (21,438)              | 77,939                   |
| Leasehold improvements  | 1,145,619                 | 1,028,491           | (417,846)             | 1,756,264                |
|                         | <b>\$ 5,853,222</b>       | <b>\$ 3,422,413</b> | <b>\$ (2,971,483)</b> | <b>\$ 6,304,152</b>      |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 5. INTANGIBLE ASSETS AND GOODWILL

|                                   | June 30, 2018        |                          |                      |
|-----------------------------------|----------------------|--------------------------|----------------------|
|                                   | Cost                 | Accumulated Amortization | Carrying amount      |
| Contract costs                    | \$ 25,808,938        | \$ 13,874,447            | \$ 11,934,491        |
| Software – Palisade               | 500,000              | 500,000                  | -                    |
| Customer relationships – Palisade | 175,000              | 175,000                  | -                    |
| Software – FailSafe/Freeze        | 7,058,432            | 7,058,432                | -                    |
| Patents and other                 | 1,784,831            | 1,784,831                | -                    |
| Brand rights                      | 1,546,174            | 1,264,536                | 281,638              |
| Goodwill                          | 1,100,000            | -                        | 1,100,000            |
|                                   | <b>\$ 37,973,375</b> | <b>\$ 24,657,246</b>     | <b>\$ 13,316,129</b> |

  

|                                   | June 30, 2017        |                          |                      |
|-----------------------------------|----------------------|--------------------------|----------------------|
|                                   | Cost                 | Accumulated Amortization | Carrying amount      |
| Contract costs                    | \$ 26,989,399        | \$ 13,500,868            | \$ 13,488,531        |
| Software – Palisade               | 500,000              | 500,000                  | -                    |
| Customer relationships – Palisade | 175,000              | 175,000                  | -                    |
| Software – FailSafe/Freeze        | 7,058,432            | 7,058,432                | -                    |
| Patents and other                 | 1,784,831            | 1,733,581                | 51,250               |
| Brand rights                      | 1,246,174            | 991,437                  | 254,737              |
| Goodwill                          | 1,100,000            | -                        | 1,100,000            |
|                                   | <b>\$ 38,853,836</b> | <b>\$ 23,959,318</b>     | <b>\$ 14,894,518</b> |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 5. INTANGIBLE ASSETS AND GOODWILL (continued)

The following tables summarize intangible asset activity for the years ended June 30, 2018 and 2017:

|                   | Year ended June 30, 2018  |                     |                       |                          |
|-------------------|---------------------------|---------------------|-----------------------|--------------------------|
|                   | Carrying amount - opening | Additions           | Amortization          | Carrying amount - ending |
| Contract costs    | \$ 13,488,531             | \$ 7,302,776        | \$ (8,856,816)        | \$ 11,934,491            |
| Patents and other | 51,250                    | -                   | (51,250)              | -                        |
| Brand rights      | 254,737                   | 300,000             | (273,099)             | 281,638                  |
| Goodwill          | 1,100,000                 | -                   | -                     | 1,100,000                |
|                   | <b>\$ 14,894,518</b>      | <b>\$ 7,602,776</b> | <b>\$ (9,181,165)</b> | <b>\$ 13,316,129</b>     |

|                   | Year ended June 30, 2017  |                     |                       |                          |
|-------------------|---------------------------|---------------------|-----------------------|--------------------------|
|                   | Carrying amount - opening | Additions           | Amortization          | Carrying amount - ending |
| Contract costs    | \$ 13,923,735             | \$ 8,367,326        | \$ (8,802,530)        | \$ 13,488,531            |
| Patents and other | 164,327                   | 160,000             | (273,077)             | 51,250                   |
| Brand rights      | 194,200                   | 275,245             | (214,708)             | 254,737                  |
| Goodwill          | 1,100,000                 | -                   | -                     | 1,100,000                |
|                   | <b>\$ 15,382,262</b>      | <b>\$ 8,802,571</b> | <b>\$ (9,290,315)</b> | <b>\$ 14,894,518</b>     |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 6. TRADE AND OTHER PAYABLES

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

|                               | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|-------------------------------|----------------------|----------------------|
| Trade payables                | \$ 5,108,414         | \$ 3,968,295         |
| Payroll and employee benefits | 4,894,340            | 5,297,262            |
| Deferred share units          | 1,702,748            | 982,187              |
| Accrued liabilities           | 804,198              | 1,382,801            |
| Lease inducements             | 876,055              | 1,115,480            |
| Sales taxes payable           | 290,642              | 333,431              |
|                               | <u>\$ 13,676,397</u> | <u>\$ 13,079,456</u> |

### 7. ACCRUED WARRANTY

The following table summarizes changes in the accrued warranty for the years ended June 30, 2018 and 2017:

|                            | <u>Year ended June 30,</u> |                   |
|----------------------------|----------------------------|-------------------|
|                            | <u>2018</u>                | <u>2017</u>       |
| Balance, beginning of year | \$ 570,000                 | \$ 460,000        |
| Warranty accrual           | 869,949                    | 1,698,926         |
| Guarantee payments         | (1,169,949)                | (1,588,926)       |
| Balance, end of year       | <u>\$ 270,000</u>          | <u>\$ 570,000</u> |

### 8. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances to invoiced billings, revenue, and other adjustments:

|                            | <u>Year ended June 30,</u> |                      |
|----------------------------|----------------------------|----------------------|
|                            | <u>2018</u>                | <u>2017</u>          |
| Balance, beginning of year | \$ 138,402,301             | \$ 137,974,162       |
| Billings                   | 94,410,646                 | 91,633,372           |
| Revenue recognized         | (93,621,832)               | (91,210,550)         |
| Other adjustments          | (4,429)                    | 5,317                |
| Balance, end of year       | <u>139,186,686</u>         | <u>138,402,301</u>   |
| Less: current portion      | <u>(75,325,574)</u>        | <u>(72,361,648)</u>  |
|                            | <u>\$ 63,861,112</u>       | <u>\$ 66,040,653</u> |



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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

During the year ended June 30, 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, the Company reorganized certain functional departments to optimize internal resources. Pursuant to the reorganization, the Company incurred termination benefits amounting to \$2,121,148.

These post-retirement benefits and reorganization charges were attributable to the following areas for the year ended June 30, 2017:

|                            | Year ended<br>June 30, 2017 |
|----------------------------|-----------------------------|
| Research and development   | \$ 1,058,774                |
| Sales and marketing        | 773,780                     |
| Cost of revenue            | 535,240                     |
| General and administration | 391,354                     |
|                            | <u>\$ 2,759,148</u>         |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 10. SHARE CAPITAL

(a) *Authorized*

100,000,000 common shares, no par value

20,000,000 preferred shares, Series A, voting, convertible, redeemable, no par value

(b) *Issued and outstanding*

During the year ended June 30, 2018, the Company issued 334,750 common shares on exercise of employee stock options for total proceeds of \$1,650,668. An amount of \$568,506 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the year ended June 30, 2018, the Company issued 99,477 common shares pursuant to its employee share purchase plan for total proceeds of \$440,714.

During the year ended June 30, 2018, the Company issued 50,812 common shares pursuant to its Phantom Share Unit ("PhSU") Plan with a fair value of \$297,786.

During the year ended June 30, 2018, the Company issued 107,243 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a fair value of \$602,822.

During the year ended June 30, 2018, the Company released 28,904 common shares pursuant to its Market-based Performance and Restricted Share Unit ("Market PRSU") Plan with a value of \$148,652. These units were settled using treasury shares.

During the year ended June 30, 2017, the Company issued 661,838 common shares on exercise of employee stock options for total proceeds of \$2,726,586. An amount of \$1,313,196 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the year ended June 30, 2017, the Company issued 84,455 common shares pursuant to its employee share purchase plan for total proceeds of \$361,477.

During the year ended June 30, 2017, the Company issued 327,145 common shares pursuant to its Phantom Share Unit ("PhSU") Plan with a fair value of \$2,281,206.

During the year ended June 30, 2017, the Company issued 7,104 common shares pursuant to its Performance and Restricted Share Unit ("PRSU") Plan with a fair value of \$35,131.

On September 6, 2017, the Company received approval from the TSX to commence a Normal Course Issuer Bid (the "Bid") on September 11, 2017 that enables the Company to purchase and cancel up to 2,538,721 of its common shares or return such shares to treasury. The Bid allows for the purchase of up to 17,635 common shares on a daily basis until September 10, 2018, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to September 11, 2017, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. SHARE CAPITAL (continued)

Under the Bids, during the year ended June 30, 2018, the Company repurchased and cancelled 49,800 common shares for a total cost of \$245,424 (2017 – 280,100 common shares for \$1,326,693). 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 \$172,243 (2017 - \$876,845).

#### (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 2016). 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 June 30, 2018, the maximum number of common shares available under the Option Plan was 3,660,468 (June 30, 2017 – 3,992,558), of which 1,350,092 remained available for grant thereunder.

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

The following table summarizes activity under the Option Plan for the years ended June 30, 2018 and 2017:

|                                | 2018              |                                       | 2017              |                                       |
|--------------------------------|-------------------|---------------------------------------|-------------------|---------------------------------------|
|                                | Number of options | Weighted average exercise price (CAD) | Number of options | Weighted average exercise price (CAD) |
| Outstanding, beginning of year | 2,961,057         | \$ 7.46                               | 3,718,950         | \$ 7.13                               |
| Granted                        | 905,002           | 7.11                                  | 141,470           | 7.34                                  |
| Exercised                      | (334,750)         | 6.11                                  | (661,838)         | 5.45                                  |
| Forfeited                      | (1,081,808)       | 8.08                                  | (174,425)         | 7.80                                  |
| Expired                        | (139,125)         | 7.93                                  | (63,100)          | 7.31                                  |
| Outstanding, end of year       | <b>2,310,376</b>  | <b>\$ 7.21</b>                        | 2,961,057         | \$ 7.47                               |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. SHARE CAPITAL (continued)

The following table summarizes information about stock options issued and exercisable at June 30, 2018:

| Range of exercise prices (CAD) | Options Outstanding |   |                                       | Options Exercisable |                                 |
|--------------------------------|---------------------|---|---------------------------------------|---------------------|---------------------------------|
|                                | Number of options   | Weighted average remaining contractual life (years) | Weighted average exercise price (CAD) | Number of options   | Weighted average exercise price |
| \$5.10 - \$7.49                | 1,689,001           | 4.3   | \$ 6.75                               | 732,544             | \$ 6.46                         |
| \$8.04 - \$8.10                | 400,000             | 1.4   | 8.05                                  | 275,000             | 8.05                            |
| \$9.16 - \$9.58                | 221,375             | 1.5   | 9.21                                  | 158,000             | 9.20                            |
|                                | <b>2,310,376</b>    | <b>3.5</b>  | <b>\$ 7.21</b>                        | <b>1,165,544</b>    | <b>\$ 7.21</b>                  |

#### *Fair values – Option Plan*

The total fair value of options granted under the Option Plan in the year ended June 30, 2018 was \$766,014 (2017 - \$126,365). The weighted average grant date fair value of options granted during the year ended June 30, 2018 was \$0.85 (2017 - \$0.89).

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

|                          | Year ended June 30, |      |
|--------------------------|---------------------|------|
|                          | 2018                | 2017 |
| Risk-free interest rate  | 1.7%                | 0.7% |
| Dividend yield           | 4.5%                | 4.4% |
| Expected life (in years) | 3.8                 | 4.0  |
| Volatility               | 29%                 | 31%  |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 10. SHARE CAPITAL (continued)

#### (d) Phantom Share Unit Plan

The Company's share-based compensation plans also include a Phantom Share Unit 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 June 30, 2018, 1,187,031 (June 30, 2017 – 867,496) common shares were eligible for grant under the PRSU Plan, of which 1,167,739 remained available for grant thereunder.

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 years ended June 30, 2018 and 2017:

|                                | <b>Year ended June 30,</b> |                            |
|--------------------------------|----------------------------|----------------------------|
|                                | <b>2018</b>                | <b>2017</b>                |
|                                | <b>Number<br/>of units</b> | <b>Number<br/>of units</b> |
| Outstanding, beginning of year | <b>118,275</b>             | 439,558                    |
| Granted                        | <b>3,118</b>               | 16,050                     |
| Released                       | <b>(50,808)</b>            | (327,145)                  |
| Forfeited                      | <b>(51,291)</b>            | (10,188)                   |
| Outstanding, end of year       | <b>19,294</b>              | 118,275                    |

The total fair value of PhSUs granted under the PhSU Plan in the year ended June 30, 2018 was \$22,356 (2017 - \$120,757). The weighted average grant date fair value of PhSUs granted during the year ended June 30, 2018 was \$7.17 (2017 - \$7.52). At June 30, 2018, 11,824 of the outstanding PhSUs had vested.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. 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 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 June 30, 2018, 2,497,240 (June 30, 2017 – 1,031,501) common shares were eligible for grant under the PRSU Plan, of which 1,350,092 remained available for grant thereunder.

In addition, in the year ended June 30, 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 the Board of Directors at the date of grant, and can range from 0% to 200% of the number of units initially granted. Generally, PSUs expire on December 31 of the year of vesting.

The following table summarizes PSU activity under the PRSU Plan for the year ended June 30, 2018 and 2017:

|                                | <b>Year ended June 30,</b> |                    |
|--------------------------------|----------------------------|--------------------|
|                                | <b>2018</b>                | 2017               |
|                                | <b>Number<br/>of units</b> | Number of<br>units |
| Outstanding, beginning of year | <b>122,263</b>             | 49,811             |
| Granted                        | <b>87,539</b>              | 72,452             |
| Released                       | <b>(10,495)</b>            | -                  |
| Forfeited                      | <b>(149,614)</b>           | -                  |
| Outstanding, end of year       | <b>49,693</b>              | 122,263            |

In the year ended June 30, 2018, 10,495 released units were related to the Market PSU Plan, and were settled using treasury shares.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. SHARE CAPITAL (continued)

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

The total fair value of PSUs granted under the PRSU Plan in the year ended June 30, 2018 was \$739,109 (2017 - \$617,306). The weighted average grant date fair value of PSUs granted during the year ended June 30, 2018 was \$8.77 (2017 - \$8.80). At June 30, 2018, 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). Generally, RSUs expire on December 31 of the year of vesting.

The following table summarizes RSU activity under the PRSU Plan for the year ended June 30, 2018 and 2017:

|                                | Year ended June 30, |                    |
|--------------------------------|---------------------|--------------------|
|                                | 2018                | 2017               |
|                                | Number of<br>units  | Number of<br>units |
| Outstanding, beginning of year | <b>636,732</b>      | 271,415            |
| Granted                        | <b>791,362</b>      | 428,480            |
| Released                       | <b>(125,651)</b>    | (7,104)            |
| Forfeited                      | <b>(187,180)</b>    | (56,059)           |
| Expired                        | <b>(3,904)</b>      | -                  |
| Outstanding, end of year       | <b>1,111,359</b>    | 636,732            |

The outstanding RSUs at June 30, 2018 include 13,903 units that were issued pursuant to the Market PRSU Plan. In the year ended June 30, 2018, 18,408 released units were related to the Market PSU Plan, and were settled using treasury shares.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. SHARE CAPITAL (continued)

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

The total fair value of RSUs granted under the PRSU Plan in the year ended June 30, 2018 was \$4,406,702 (2017 - \$2,333,588). The weighted average grant date fair value of RSUs granted during the year ended June 30, 2018 was \$5.75 (2017 - \$5.65). At June 30, 2018, 184,868 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 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 month period). 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 year ended June 30, 2018 and 2017:

|                                | <b>Year ended June 30,</b> |                    |
|--------------------------------|----------------------------|--------------------|
|                                | <b>2018</b>                | 2017               |
|                                | <b>Number of<br/>units</b> | Number of<br>units |
| Outstanding, beginning of year | <b>208,000</b>             | 104,000            |
| Granted                        | <b>143,418</b>             | 104,000            |
| Outstanding, end of year       | <b>351,418</b>             | 208,000            |

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

The total fair value of DSUs granted under the DSU Plan in the year ended June 30, 2018 was \$754,380 (2017 - \$615,680). The weighted average grant date fair value of DSUs granted during the year ended June 30, 2018 was \$5.26 (2017 - \$5.92). The fair value owing was marked to market at June 30, 2018, and as a result, at that date, the total liability carried within Accounts Payable and Accrued Liabilities related to the DSU Plan was \$1,702,748 (June 30, 2017 - \$982,187).



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 10. SHARE CAPITAL (continued)

#### (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 year ended June 30, 2018, 99,477 common shares (2017 – 84,455 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$4.43 (2017 - \$4.23) per share.

At June 30, 2018, 182,353 common shares remained available for grant under the Purchase Plan.

#### (h) Dividends

In the year ended June 30, 2018, the Company declared four quarterly dividends on its common shares, amounting to \$10,067,904 (2017 – \$9,476,850). The dividends were paid in cash to shareholders of record at the close of business on August 4, 2017, November 6, 2017, February 2, and May 8, 2018. Each quarterly dividend was CAD\$0.08 per common share.

#### (i) Share-based compensation

The Company's share-based compensation for the years ended June 30, 2018 and 2017 was comprised as follows:

|                              | Year ended June 30, |                     |
|------------------------------|---------------------|---------------------|
|                              | 2018                | 2017                |
| Restricted share units       | \$ 2,407,901        | \$ 1,256,489        |
| Deferred share unit plan     | 720,562             | 576,898             |
| Stock option plan            | 130,798             | 860,678             |
| Employee share purchase plan | 79,295              | 66,255              |
| Performance share units      | (95,795)            | 348,839             |
| Phantom share unit plan      | (187,129)           | 862,002             |
|                              | <u>\$ 3,055,632</u> | <u>\$ 3,971,161</u> |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 10. SHARE CAPITAL (continued)

The following table summarizes the allocation of share-based compensation for the years ended June 30, 2018 and 2017:

|                            | Year ended June 30, |                     |
|----------------------------|---------------------|---------------------|
|                            | 2018                | 2017                |
| Cost of revenue            | \$ 213,195          | \$ 78,447           |
| Sales and marketing        | 1,007,298           | 973,006             |
| Research and development   | 461,531             | 916,056             |
| General and administration | 1,373,608           | 2,003,652           |
|                            | <b>\$ 3,055,632</b> | <b>\$ 3,971,161</b> |

#### (j) Treasury shares

During the year ended June 30, 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(e)). In year ended June 30, 2018, 28,903 treasury shares were used to settle PSUs and RSUs released pursuant to the Market PRSU Plan.

#### (k) Diluted number of common shares outstanding

For the year ended June 30, 2018, the diluted weighted average number of common shares outstanding was 41,303,967 (2017 – diluted shares were equal to the weighted average number of shares outstanding). In the year ended June 30, 2018, there were 1,275,502 dilutive securities (2017 – 922,420 potentially dilutive securities), which were related to the following:

|               | Year ended June 30, |                |
|---------------|---------------------|----------------|
|               | 2018                | 2017           |
| Stock options | 683,055             | 636,542        |
| RSUs          | 557,409             | 211,866        |
| PhSUs         | 9,799               | 43,955         |
| PSUs          | 25,239              | 30,057         |
|               | <b>1,275,502</b>    | <b>922,420</b> |

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 11. INCOME TAXES

Income tax expense for the years ended June 30, 2018 and 2017 differ from that calculated by applying statutory rates for the following reasons:

|  | <b>Year ended June 30,</b> |                |
|--|----------------------------|----------------|
|  | <b>2018</b>                | <b>2017</b>    |
| Income (loss) before income taxes  | <b>\$ 2,859,853</b>        | \$ (2,007,177) |
| Combined Federal and Provincial income tax rate                                      | <b>26.50%</b>              | 26.00%         |
| Tax (expense) recovery at statutory rate   | <b>(757,861)</b>           | 521,866        |
| Permanent differences  | <b>(330,927)</b>           | (818,998)      |
| Foreign income tax effected at higher rates  | <b>(477,699)</b>           | (3,815,193)    |
| Changes in statutory tax rates   | <b>(946,990)</b>           | -              |
| Losses and temporary differences for which no deferred tax asset has been recognized | <b>(6,349)</b>             | (229,382)      |
| Tax benefit of deferred income tax assets not previously recognized                  | <b>2,509,622</b>           | 1,624,447      |
| Amounts over (under) provided for in prior years                                     | <b>261,204</b>             | (226,740)      |
| Total income tax recovery (expense)  | <b>\$ 251,000</b>          | \$ (2,944,000) |
| Comprised of:  |                            |                |
| Current income tax expense   | <b>\$ (1,872,000)</b>      | \$ (1,853,000) |
| Deferred income tax recovery (expense)   | <b>2,123,000</b>           | (1,091,000)    |
|  | <b>\$ 251,000</b>          | \$ (2,944,000) |

In the year ended June 30, 2018, the Company's effective tax rate was impacted by a \$2,509,622 tax recovery (2017 - \$1,624,447) related to the recognition of previously unrecognized deferred tax assets. In addition, the Company recorded a \$946,990 deferred tax expense (2017 - \$nil) related to the revaluation of its U.S. based deferred tax assets to reflect the recently enacted decrease in the U.S. federal corporate tax rate.

The Company's current tax expense is comprised of a current income tax expense of \$3,293,628 (2017 - \$2,002,272) in Canada, which was fully offset by Canadian Investment Tax Credits ("ITCs"); a current income tax recovery of \$1,447,356 (2017 - \$172,000) in the U.S.; and a current income tax expense of \$25,728 (2017 - \$22,728) relating to its other foreign operations.

The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED"). The ITC recovery recorded was in respect of expenditures in the year ended June 30, 2018.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

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(Expressed in United States dollars)

### 11. INCOME TAXES (continued)

The tax effect of the significant temporary differences and loss carryforwards that comprise deferred income tax assets and liabilities at June 30, 2018 and 2017 are as follows:

|                                  | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|----------------------------------|----------------------|----------------------|
| Deferred income tax assets:      |                      |                      |
| Deferred revenue                 | \$ 19,255,944        | \$ 17,476,418        |
| Operating loss carryforwards     | 1,074,956            | 2,599,259            |
| Property and equipment           | 2,110,169            | 208,893              |
| ITCs                             | 1,278,774            | 2,370,036            |
| Other                            | 592,033              | 660,044              |
|                                  | <u>24,311,876</u>    | <u>23,314,650</u>    |
| Deferred income tax liabilities: |                      |                      |
| Intangible assets and goodwill   | (297,000)            | (286,000)            |
| ITCs                             | (696,271)            | (741,846)            |
|                                  | <u>(993,271)</u>     | <u>(1,027,846)</u>   |
|                                  | <u>\$ 23,318,605</u> | <u>\$ 22,286,804</u> |

At June 30, 2018, the Company had a deferred tax asset of \$22,790,373 relating to its Canadian operations, \$446,547 relating to its U.S operations, and \$1,074,956 relating to its U.K. operations. The Company's deferred tax liability of \$993,271 was related to its Canadian operations. Accordingly, at June 30, 2018, the Company had a net tax asset \$21,797,102 (June 30, 2017 - \$19,289,478) relating to Canada, \$446,547 (June 30, 2017 - \$2,997,326) relating to the U.S, and \$1,074,956 relating to the U.K. (June 30, 2017 - \$nil).

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 carryforward 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 carryforward period. The Company has \$2,003,800 in capital loss carryforwards in Canada, which carry forward indefinitely. The Company has not recognized the deferred tax benefits of these tax loss carry forwards. In addition, the Company has recognized the deferred tax benefits of estimated U.K. operating tax loss carryforwards of \$5,657,664 which carry forward indefinitely.

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, tax assets and operating loss carry-forwards.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 12. SUPPLEMENTAL CASH FLOW INFORMATION

#### *Composition of cash and cash equivalents*

|                  | <u>June 30, 2018</u> | <u>June 30, 2017</u> |
|------------------|----------------------|----------------------|
| Cash             | \$ 17,484,488        | \$ 16,189,737        |
| Cash equivalents | 16,472,500           | 16,321,356           |
|                  | <u>\$ 33,956,988</u> | <u>\$ 32,511,093</u> |

#### *Other cash flow information*

|                                 | <u>Year ended June 30,</u> |              |
|---------------------------------|----------------------------|--------------|
|                                 | <u>2018</u>                | <u>2017</u>  |
| Cash paid for income taxes      | \$ 568,075                 | \$ 6,089,978 |
| Cash received from income taxes | 2,388,343                  | 166,266      |

#### *Non-cash investing and financing activities*

|   |             |              |
|---|-------------|--------------|
| Accrued purchases of property and equipment | \$ (34,480) | \$ (865,008) |
|---|-------------|--------------|

### 13. CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth and strategic acquisitions in order to provide returns to its shareholders, and have not changed since 2014. The Company's capital structure consists of cash and cash equivalents, short-term investments and investments, and shareholders' deficiency, which is comprised of issued capital, equity reserve, and deficit. The Company does not hold debt. During 2013, the Company instituted a quarterly dividend. The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including dividends, major investments and share repurchases.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 14. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

#### (a) *Overview*

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed have not changed from the year ended June 30, 2017.

#### (b) *Market risk*

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

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

#### *Foreign Currency Sensitivity Analysis*

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

The Company is exposed to fluctuations in the Canadian dollar and the U.K. pound, through Canadian dollar and U.K. pound working capital balances and operating expenses. The Company's sensitivity to a 1% strengthening of the Canadian dollar against the U.S. dollar is an approximate decrease of \$300,000 in annual operating income and a \$335,000 decrease in net income. The Company's sensitivity to a 1% strengthening of the U.K. pound against the U.S. dollar is an approximate decrease of \$26,000 in annual operating income and a \$23,000 decrease in net income. For a 1% weakening of the Canadian dollar or U.K. pound against the U.S. dollar, there would be an equal and opposite impact on operating income and net income.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

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### 14. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

#### (c) *Liquidity Risk*

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

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

#### (d) *Credit Risk*

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

The Company manages credit risk related to accounts receivable by carrying out credit investigations for new customers and partners, and by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. Accounts receivable are net of allowance for doubtful accounts of \$282,367 (June 30, 2017 - \$295,155).

At June 30, 2018, 4% of the Company's accounts receivable balance is over 90 days past due (June 30, 2017 – 2%). As at June 30, 2018, 32%, 30%, 10%, and 10% (June 30, 2017 – 21%, 33%, 12%, and 6%) of the receivable balances are owing from four OEM and reseller partners. At June 30, 2017, a fifth partner represented 14% of outstanding receivables.

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

#### (e) *Fair Values of Financial Instruments*

The carrying value of cash and cash equivalents, short term investments, accounts receivable, accounts payable and accrued liabilities, and accrued warranty approximate their fair values due to the immediate or short-term nature of these instruments.

# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 15. SEGMENTED INFORMATION

#### (a) Operating Segments

The Company and its subsidiaries operate primarily in one principal business, that being development, marketing, and support of endpoint management and data security solutions for endpoint computing devices.

#### (b) Entity wide disclosures

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

|                                 | Year ended June 30,  |                      |
|---------------------------------|----------------------|----------------------|
|                                 | 2018                 | 2017                 |
| <b>Revenue</b>                  |                      |                      |
| United States                   | \$ 82,404,860        | \$ 80,143,007        |
| Rest of world                   | 9,316,935            | 9,230,298            |
| Canada                          | 1,900,037            | 1,837,245            |
|                                 | <b>\$ 93,621,832</b> | <b>\$ 91,210,550</b> |
|                                 |                      |                      |
|                                 | June 30, 2018        | June 30, 2017        |
| <b>Long-lived assets</b>        |                      |                      |
| United States and rest of world | \$ 10,273,510        | \$ 11,534,466        |
| Canada                          | 9,005,448            | 9,477,989            |
|                                 | <b>\$ 19,278,958</b> | <b>\$ 21,012,455</b> |

### 16. COMMITMENTS

The Company's minimum payments required under operating leases for premises, equipment and business service agreements, and a branding agreement are as follows as at June 30, 2018:

|                     |                     |
|---------------------|---------------------|
| 2019                | \$ 3,327,898        |
| 2020                | 2,335,793           |
| 2021                | 1,344,217           |
| 2022                | 501,520             |
| 2023 and thereafter | 61,765              |
|                     | <b>\$ 7,571,193</b> |



# ABSOLUTE SOFTWARE CORPORATION

## Notes to the Consolidated Financial Statements

Years ended June 30, 2018 and 2017

(Expressed in United States dollars)

### 17. RELATED PARTY TRANSACTIONS

*Key management personnel compensation*

|   | Year ended June 30, |                     |
|---|---------------------|---------------------|
|   | 2018                | 2017                |
| Salaries, bonus, and short-term employment benefits | \$ 3,399,389        | \$ 3,144,754        |
| Share-based compensation                            | 1,438,349           | 3,062,011           |
|   | <b>\$ 4,837,738</b> | <b>\$ 6,206,765</b> |

In the year ended June 30, 2018, 18 individuals (2017 – 16 individuals) were included in key management personnel.

### 18. 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.

### 19. SUBSEQUENT EVENTS

(a) *Employee share purchase plan*

On July 13, 2018, 45,616 common shares were issued pursuant to the Employee Share Purchase Plan.

(b) *Quarterly dividend*

On July 23, 2018, the Company declared a quarterly dividend of CAD\$0.08 per share on its common shares, payable in cash on August 23, 2018 to shareholders of record at the close of business on August 2, 2018.