

**ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)**  
**Fiscal 2015 Management's Discussion and Analysis**  
**For the three months and year ended June 30, 2015**  
**Dated: August 17, 2015**

*The following Management's Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2015 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the Annual Information Form are available at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://www.sedar.com).*

*This MD&A contains certain forward-looking statements, which relate to future events or the Company's future performance, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall", "scheduled" and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company's control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A.*

*This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) the continuing need for device and information security, tracking and theft management services and solutions; (b) the continuation of computer refresh/replacement cycles; (c) the attainment of certain sales and cash flow targets and Company performance; (d) the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners, successfully launching new products or features and adapting solutions to new operating systems and platforms; (e) the ability of the Company to successfully compete in an increasingly competitive landscape; (f) the continuation of embedded firmware support from its current and anticipated OEM partners; (g) the continued and increased demand for its products and services; (h) the ability of the Company to access and gain sales traction in international markets; (i) the ability of the Company to attract and retain key employees; (j) statements as to any and all future dividend issuances; (k) the ability of the Company to successfully divest of its Absolute Manage and Absolute Service product lines; and (l) other expectations, intentions and plans contained in this document that are not historical facts.*

*The key assumptions underlying the aforementioned forward-looking statements are that: (a) the increasing adoption of mobile computing devices will lead to an increased demand for endpoint information security and management solutions; (b) the Company's investments in sales, marketing, research and product development will lead to growth of the business as the worldwide computer and mobile device markets grow; (c) the Company will be able to continue to add new products and features to its product portfolio; and (d) the Company will expand and be able to benefit from its portfolio of intellectual property, including patents. Certain or all of the foregoing assumptions may prove to be incorrect which could negatively impact the Company's business and the anticipated results discussed herein.*

*The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, some of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other companies; the impact of general economic conditions in Canada, the United States and overseas; industry conditions; changes in technologies, including new device types and operating systems; changes in laws and regulations (including new intellectual property and privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation; the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof; and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in this MD&A and the Company's Annual Information Form for the year ended June 30, 2015. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.*

*The words "we", "our", "us", "Company" and "Absolute" refer to Absolute Software Corporation, together with its subsidiaries, and/or the management and employees of the Company.*

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

## Selected Quarterly Information

(in millions of USD, except percent and per share data, unless otherwise noted)

	Q4 Fiscal 2015	Q4 Fiscal 2014	YTD Fiscal 2015	YTD Fiscal 2014
Billings <sup>(1)</sup>	\$ 29.0	\$ 30.7	\$ 101.3	\$ 97.3
% increase	(6%)	18%	4%	10%
Cash from Operating Activities <sup>(1)</sup>	\$ 2.7	\$ 1.9	\$ 23.0	\$ 15.5
Per share (basic) <sup>(1)(2)</sup>	\$ 0.06	\$ 0.04	\$ 0.52	\$ 0.36
Per share (diluted) <sup>(1)(2)</sup>	\$ 0.06	\$ 0.04	\$ 0.50	\$ 0.35
Revenue	\$ 23.3	\$ 23.3	\$ 93.6	\$ 91.0
% increase	(0%)	6%	3%	9%
Adjusted EBITDA <sup>(1)</sup>	\$ 2.1	\$ 4.3	\$ 17.1	\$ 16.3
% increase	(51%)	34%	5%	39%
Net (loss) income	\$ (0.7)	\$ 0.8	\$ 4.6	\$ 3.6
Per share (basic) <sup>(2)</sup>	\$ (0.02)	\$ 0.02	\$ 0.10	\$ 0.08
Per share (diluted) <sup>(2)</sup>	\$ (0.02)	\$ 0.02	\$ 0.10	\$ 0.08
Dividends paid	\$ 2.6	\$ 2.4	\$ 10.1	\$ 9.3
Per share (CAD)	\$ 0.07	\$ 0.06	\$ 0.27	\$ 0.23
Total assets	\$ 149.9	\$ 137.8	\$ 149.9	\$ 137.8
Cash, cash equivalents and investments	\$ 85.8	\$ 73.6	\$ 85.8	\$ 73.6
Deferred Revenue	\$ 135.3	\$ 137.0	\$ 135.3	137.0

(1) Throughout this document, “Cash from Operating Activities” and “Basic or Diluted Cash from Operating Activities per Share” and “Adjusted EBITDA” are used as profitability measures. “Billings” (invoiced sales, formerly referred to as Sales Contracts) is used as a measure of sales performance and as an indicator of future revenue and profitability. Please refer to the “Non-IFRS Measures” and “Subscription Business Model” sections of this MD&A for further discussion on these measures.

(2) Per share figures for F2015 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 399,400 common shares under a Normal Course Issuer Bid that commenced in Q1-F2015.

## **BUSINESS OVERVIEW:**

### **Background**

Absolute® Software Corporation provides endpoint security and data risk management solutions for devices such as computers, laptops, tablets and smartphones. The Company was founded in 1993 with the vision of enabling businesses to track, manage and secure their mobile computing devices, regardless of user or location. Today, our solutions provide lifecycle security, risk assessment, and risk response for endpoint devices and the data they contain. Our data and device security solutions are deployed on more than five million computers and mobile devices worldwide by our customers that include corporations, healthcare organizations, educational institutions, governmental organizations and individual consumers.

The market opportunity for our products and services is driven by the rapid adoption of mobile computing coupled with an increasing market and regulatory emphasis on information security. From a general perspective, mobile devices are susceptible to loss or theft which ultimately puts data stored on the device at risk of breach or compromise. Enterprises are also increasingly concerned with more sophisticated risk scenarios such as targeted hacking, internal fraud and identity theft which can often begin at the endpoint. Persistence technology allows our customers to maintain a trusted, two-way connection with each device so they can assess risk and take appropriate security measures.

With Absolute Data and Device Security (“DDS”), formerly known as Computrace, customers are able to proactively protect the information on each of their endpoints through alerts triggered by pre-defined conditions such as encryption status and suspicious device activity. In the event of a suspected security incident, customers can initiate actions such as device freeze, remote data delete and retrieval and geolocation. For these latter scenarios, our solutions also incorporate services and features such as remote investigations and forensics. As an example, our remote investigative services can enable a customer to determine whether sensitive information was accessed by an unauthorized user on a lost or stolen device. The results of an investigation can also include device location, unauthorized user identity, actions taken on the device, and other insightful data.

One of our principal market differentiators is our relationship with personal computer (“PC”), tablet and smartphone manufacturers (“OEMS”), who embed our core, patented Persistence® technology into the firmware or operating systems of their devices, and who also serve as our primary distribution channels. Persistence technology by Absolute was firmware-embedded for the first time by a device OEM in 2005, and today Persistence technology is embedded into desktop, laptop, tablet and smartphone devices from 25 device OEMs, including most of the world’s leading PC manufacturers. This is a key differentiator for Absolute, as our firmware-embedded Persistence module enables our software to be highly tamper-resistant on an endpoint. If efforts are made to remove our software agent, an automatic reinstallation will occur; even if the firmware is overwritten or flashed, the device is reimaged, the hard drive is replaced, or if a tablet or smartphone is restored to its factory settings.

In July 2015, we announced our intention to divest our Absolute Manage and Absolute Service product lines in order to focus our efforts and resources on our core Absolute DDS product, which we believe represents our largest and most significant market opportunity. See the “Intent to Divest - Absolute Manage and Absolute Service” section below for more details.

## **SOLUTIONS AND TECHNOLOGIES**

### **Absolute Data and Device Security (“Absolute DDS”)**

Absolute DDS, formerly known as Computrace, is designed to enable customers to maintain control over their mobile computing environments both on and off the corporate network. The solution is SaaS-based, is rapidly deployable and is designed to secure and protect multiple mobile device types and platforms. Absolute DDS provides organizations with critical security capabilities such as lifecycle security, risk assessment, and risk response for endpoint devices and the data they contain. Through its unique persistent endpoint connection, Absolute DDS provides information technology (“IT”) departments and administrators with the insight they need to assess risk and apply scenario-appropriate security measures.

With Absolute DDS, IT and security administrators can monitor and manage each device on or off the network, knowing where it is, who is using it, and what types of software and other applications reside on it. In addition, they can receive alerts if a predefined condition occurs so they can take proactive security measures.

In the event of an emergency situation, administrators can take protective measures, such as locating the device, remotely locking the device, deleting sensitive information, retrieving important files and engaging our investigative services team to conduct remote investigations to understand whether sensitive files have been accessed, determine the identity of the current device user, and to work with local law enforcement to support the recovery of the device. Since inception, we have helped recover more than 36,000 computers for our customers in 112 countries.

Absolute DDS is offered in specific versions for Business, Healthcare, and Education. All versions of Absolute DDS are available in three editions: Premium, Professional, and Standard, each of which provides a different subset of product features and functionality.

In June 2013 we acquired the assets of privately-held Palisade Systems, a provider of enterprise data security and data loss prevention solutions. The Palisade solution portfolio includes web monitoring and filtering, data monitoring and DLP. These solutions enable organizations to monitor and secure sensitive corporate and intellectual property and prevent it from leaving company networks and endpoints; define and enforce access to external networks; and enforce compliance with privacy and security regulations. We are currently integrating the Palisade technology into Absolute DDS. The initial phase of this work will provide our customers with endpoint data discovery capabilities so they can assess the nature of data stored on an endpoint. Persistence technology will allow them to extend this capability to devices that are off the corporate network and typically beyond the reach of traditional data discovery and DLP products.

Our consumer version of Absolute DDS is currently marketed through our partners either as a white-label version or as Lojack® for Laptops.

### ***Persistence Technology***

Through our partnership with OEMs (see Partner Ecosystem, below), Absolute Persistence technology is embedded into the firmware of desktop, laptop, tablet, and smartphone devices at the factory. Once the Persistence software agent is installed and activated, it enables an extremely high level of resilience against accidental or intentional disruption, providing a reliable, two-way connection between the device and our SaaS-based monitoring center.

By leveraging Persistence technology, Absolute DDS is highly tamper-resistant. If the Absolute software agent is removed from a device, Persistence technology will trigger an automatic reinstallation – even if the firmware is rewritten or flashed, the device is reimaged, the hard drive is replaced, or if a tablet or smartphone is restored to its factory settings. As a result, IT administrators can maintain a connection with a device regardless of user or location, providing them with an exceptionally high degree of visibility and control over their endpoint devices on and off the corporate network.

Persistence technology is a key feature for our customers, as devices without the ability to self-heal are extremely difficult to track or manage when the client software is disrupted. With sensitive or confidential data at risk on these devices and the stringent data privacy regulations and internal policies with which organizations must comply, we believe that Absolute DDS has a distinct competitive advantage in the marketplace.

***Intent to Divest – Absolute Manage and Absolute Service***

In July 2015, we announced our intent to divest our Absolute Manage and Absolute Service product lines in order to focus our resources and attention on our core Absolute DDS product, which we believe represents our largest and most significant market opportunity.

Absolute Manage® is an integrated client management and enterprise mobility management (“EMM”) solution. This solution enables IT administrators to manage the full spectrum of endpoint device types that connect to corporate networks, including computers, laptops, tablets and smartphones. For PC and Mac computers, Absolute Manage enables the automation of critical IT tasks such as application and license management, software distribution, patch management, remote imaging, power management, encryption status reporting and other essential systems management functions.

Absolute Manage also incorporates EMM capabilities including mobile device management, mobile application management and secure document distribution for iOS (iPhone® and iPad™), Android and Windows Phone devices. These EMM capabilities support both corporate and employee-owned devices, supporting improved IT productivity and security of corporate data resident on those devices. Absolute Manage has been recognized in Gartner, Inc.’s internationally recognized Gartner Magic Quadrant technology rankings.

Absolute Service is an IT Service Management and Help Desk solution enabling the automation of IT workflows such as support incidents, change requests, software releases and service level agreements in order to improve customer assistance, streamline internal costs and prove compliance with policies and regulations. Absolute Service has been designed to integrate seamlessly with Absolute DDS and Absolute Manage technology. This provides joint customers with the ability to access select endpoint management and security functions directly from the Absolute Service console. All of this is done through an easy-to-use, highly scalable web-based service platform.

In F2015, Billings and revenue from Absolute Manage and Absolute Service were as follows:

(in millions)	Q1-F2015	Q2-2015	Q3-2015	Q4-2015	Total
Billings	\$2.6	\$2.9	\$2.8	\$3.6	\$11.9
Revenue	\$2.8	\$2.9	\$2.9	\$2.5	\$11.1

We will actively continue to develop the Absolute Manage and Absolute Service product lines, including regular product release cycles, through the divestiture and any required transition period. Customer support and other services have continued uninterrupted.

### ***Deployment Models***

Absolute DDS is primarily delivered in a SaaS model. The customer installs the software agent and can immediately begin realizing the benefits through our web-based console. Customers whose internal policies prohibit their devices from accessing third-party servers can commission a custom version of Absolute DDS that uses an on-premise server model.

### ***Future Products***

Over the next twelve months we plan to focus our product development efforts on adding new features to Absolute DDS, including the delivery of data discovery capabilities and integration with third party security and event management (“SIEM”) solutions.

### ***Acquisition Strategy***

In conjunction with our internal product development efforts, we have an ongoing program to evaluate potential acquisition candidates.

### ***Competition***

We have historically had few direct competitors for our Absolute DDS product line. Most competitors have been small operators with limited resources that are required to widely commercialize their offerings. Based on our proprietary technology, patent protection, managed investigative services approach and OEM relationships, we believe that we maintain a competitive advantage in the marketplace.

In the information security market, we also compete indirectly with data security companies that offer encryption solutions such as Safeboot (from McAfee), Utimaco (from Sophos), Checkpoint and Symantec, among others. However, Absolute DDS is generally purchased as a complement to these solutions and even provides status reporting on these adjacent technologies.

### ***Patent Portfolio***

We have a portfolio of 71 issued patents and currently have 100 new patent applications in process.

Due to the nature of our patent portfolio, from time to time 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.

## **Sales Model**

We operate a direct sales force with responsibility for solution selling and relationship management with our end customers. During the selling process, we also co-engage with our OEM, value-added reseller (“VAR”) and distribution partners (see “Partner Ecosystem” below). Customer orders generally flow from our customers to our partners, who then place orders directly with Absolute. We generate approximately 80% of our total sales in conjunction with our OEM partners.

During F2015 we undertook a significant reorganization of our North American direct sales force. The purpose of this realignment was to optimize the productivity of our sales function by focusing resources on discrete sales and customer management activities, namely, new customer acquisition and existing customer retention and expansion. We remain confident that our new sales structure will maximize our long term sales performance; however, we believe that our sales performance in the second half of F2015 was impacted by this reorganization.

We believe that opportunities for growth exist from selling our Absolute DDS solution to new corporate, healthcare, education and government customers within North America and internationally, as well as expanding current product deployments within our existing customer base.

## **International Expansion**

In developing the market for our solutions, we have focused primarily on North America where we have historically generated the majority of our sales. However, we believe that extending our market reach globally offers significant long-term growth opportunities. As a result, we are continuing to invest in our overseas operations in key geographies where we believe that significant opportunities exist for our solutions. These geographies include Western Europe, the Asia Pacific region and Latin America.

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

Our Absolute Manage and Absolute Service business unit has offices in Nuremburg, Germany and Melbourne, Australia and is also serviced through remote employees in the United States and Canada.

Our international billings in fiscal 2015 (“F2015”) decreased 14% compared to the prior year. International markets accounted for 11% of our F2015 billings compared to 14% in the prior fiscal year.

Our international sales have been subject to historic variability. As part of our F2015 key initiatives, we began the reorganization of our international sales structure in order to concentrate our sales and marketing resources in fewer geographies and where market opportunities are the strongest. These targeted geographies currently include Japan and Australia in the Asia-Pacific region; the United Kingdom and the Nordic countries in Europe; and Mexico in Latin America. We also recently appointed senior sales leadership in each of Europe and the Asia Pacific region. The intent of these changes is to enable consistent and sustainable long term growth internationally; however, we anticipate continued variability in our international sales results until the new organization achieves maturity.

## Vertical Expansion

Since Absolute's inception, we have experienced considerable traction with educational institutions and today enjoy a significant market share in North America, doing business with 21 of the 25 largest school districts by enrollment in the United States.

With the growing adoption of mobile computing combined with an increasing corporate and regulatory emphasis on privacy and data protection, we view the healthcare, financial services and general corporate markets as an important opportunity for our solutions. As a result, we are increasing our emphasis on these markets both in terms of introducing new product functionality targeted at information security, as well as focusing the majority of our sales and marketing efforts on these vertical markets. Billings to the combined healthcare and corporate markets accounted for 42% of our total billings in F2015.

## Partner Ecosystem

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

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

An additional element of our growth strategy is to increase the amount of sales generated from our value added reseller ("VAR") channel, both within North America and internationally. We believe that development of an enhanced VAR channel will enable us to extend the reach of our sales and marketing efforts and drive incremental sales growth with a modest investment.

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

Aava Mobile (since 2015)	Microsoft (since 2014)
Acer (since 2009)	Mustek Systems (since 2015)
ASUS (since 2009)	NCS Technologies, Inc. (since 2007)
DDM Brands (since 2014)	NEC Personal Products (since 2010)
Dell (since 2005)	PC Smart SA (since 2013)
Fujitsu (since 2006)	Panasonic (since 2006)
GammaTech (since 2008)	Positivo Informatica SA (since 2014)
Getac (since 2008)	Prestigio (since 2015)
HP (since 2005)	Samsung (since 2011)
Inforlandia LDA (since 2013)	Toshiba (since 2006)
Intel (Classmate Computer) (since 2009)	Xplore Technologies (since 2008)
Lanix (since 2014)	Yezz (since 2015)
Lenovo (since 2005)	

## **Seasonality**

Absolute's strongest quarters, as related to our Billings, have historically been the first and fourth quarters of each fiscal year. This has been primarily due to strong activity in the North American education sector, one of our key markets, during those quarters. The first fiscal quarter also normally benefits from increased U.S. federal government activity as well as increased consumer market activity related to students returning to school. As we increase the proportion of our sales into the healthcare and corporate markets, we are finding that the seasonal correlation of our Billings to the education market buying season is becoming less pronounced.

## **Subscription Business Model**

We sell the majority of our solutions under a pre-paid subscription model in which customers acquire subscriptions to software-based services for a limited license term. From a financial perspective, this subscription model improves the predictability and visibility of revenue streams, enables recurring cash flows and is expected to maximize profitability over time.

Subscriptions to Absolute's solutions are fully invoiced up-front for the purchase term (which varies from one to five years) on ordinary invoice and payment terms. Once received, payments are normally non-refundable. The amount invoiced is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position and is recognized as revenue ratably over the contract term. We refer to our total invoiced sales in a period as our total "Billings" (or "Sales Contracts").

As our customer contracts average approximately 36 months in term, there is a significant lag between revenue recognition and the timing of the Billing. However, at the time of the Billing, our future revenue stream related to that Billing, for its contracted term, is known. As a result, we focus on the aggregate amount of our subscriptions under contract, measured by Annual Contract Value ("ACV"), as an indicator of our future revenues. We refer to the aggregate amount of our subscriptions under contract with our commercial customers as our "Commercial ACV Base". We also measure the increase or decrease in the Commercial ACV Base in a given period, as related to the customers that comprised the Commercial ACV Base at the beginning of that period. We refer to this as "Net ACV Retention", and believe this provides insight into the effectiveness of our customer retention and expansion functions.

Also related to the lag between revenue recognition and the timing of the Billing is the receipt of the associated non-refundable cash flows. In general, only 15-25% of total Billings reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal period are incurred to generate Billings for that period. As a result, in times of rapid growth in the business, earnings under International Financial Reporting Standards ("IFRS") will often decrease or losses increase, while operating cash flow accelerates. Accordingly, we monitor Cash from Operating Activities as a key metric for the Company.

We also sell a small portion of our licenses on a perpetual license basis. In these scenarios, customers are invoiced up-front for the cost of the license as well as an annual maintenance and support services fee. From an accounting perspective, perpetual licenses are generally recognized as revenue at the time of delivery (assuming other criteria are met), while annual maintenance and support fees are accounted for in the same manner as subscription license fees.

## **Non-IFRS Measures**

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

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

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

### *a) Basic and diluted Cash from Operating Activities per share*

As a result of the nature of our revenues (please refer to "Subscription Business Model" in this MD&A), we believe Cash from Operating Activities per share is a meaningful indicator of profitability per share. Cash from Operating Activities per share is calculated by dividing Cash from Operating Activities by the weighted average number of shares outstanding for the period (basic), or the fully diluted number of shares using the treasury stock method (diluted).

### *b) Billings*

See the "Subscription Business Model" section of this MD&A for a detailed discussion of why we believe Billings (also known as "Sales Contracts") provide a meaningful performance metric. Billings are a component of deferred revenue (see Note 10 of the Notes to the Consolidated Financial Statements) and result from invoiced sales of our products and services.

### *c) Commercial ACV Base and Net ACV Retention*

See the "Subscription Business Model" section of this MD&A for a detailed discussion of why we believe Commercial ACV Base and Net ACV Retention provide meaningful performance metrics. Commercial ACV Base measures the amount of recurring annual revenue we will receive from our commercial customers under contract at a point in time, and therefore is an indicator of our future revenue streams. Net ACV Retention measures the percentage increase or decrease in the Commercial ACV Base at the end of a period for the customers that comprised the Commercial ACV Base at the beginning of the same period. This metric provides insight into the effectiveness of our customer retention and expansion functions.

#### *d) Adjusted Operating Expenses*

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

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

- 1) *Share-based compensation:* Our compensation strategy includes the use of share-based awards to attract and retain key employees and executives. It is principally aimed at aligning their interests with those of our shareholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, share-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- 2) *Amortization of Acquired Intangible Assets:* We believe that amortization of acquired intangible assets is not necessarily reflective of current period operational activities. In particular, the amortization of acquired technologies and customer relationships relates to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition or when other intangible assets are acquired. While it is continually reviewed for potential impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.
- 3) *Amortization of Property and Equipment:* We believe that amortization of property and equipment is not necessarily reflective of current period operational activities. In particular, the costs associated with these assets relate to operational decisions made in prior periods. Amortization of these costs is a static expense, one that is typically not affected by operations during any particular period.
- 4) *Restructuring Charges and Post-Retirement Benefits:* We believe that costs incurred in restructuring, and certain significant post-retirement benefits afforded executives upon departure from the Company, are not necessarily reflective of current period operational activities. In particular, these items relate to decisions which will impact future operating periods. The magnitude of these expenses is typically determined by contractual law, common law, or by statute, and is unaffected by operations and performance in any particular period.

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

Three months ended June 30,						
(in millions)	2015			2014		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 4.3	\$ (0.4) <sup>(1)</sup>	\$ 3.9	\$ 5.2	\$ (1.5) <sup>(1)</sup>	\$ 3.7
Total Operating Expenses	18.8	(1.5) <sup>(2)</sup>	17.3	16.6	(1.2) <sup>(2)(3)</sup>	15.4
Adjusted Operating Expenses	\$ 23.1	\$ (1.9)	\$ 21.2	\$ 21.8	\$ (2.7)	\$ 19.1

Year ended June 30,						
(in millions)	2015			2014		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 17.7	\$ (3.4) <sup>(1)</sup>	\$ 14.3	\$ 19.7	\$ (5.2) <sup>(1)</sup>	\$ 14.5
Total Operating Expenses	67.4	(5.2) <sup>(2)</sup>	62.2	65.3	(5.1) <sup>(2)(3)</sup>	60.2
Adjusted Operating Expenses	\$ 85.1	\$ (8.6)	\$ 76.5	\$ 85.0	\$ (10.3)	\$ 74.7

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.
- (3) Post-retirement benefits per Note 11 of the F2015 Consolidated Financial Statements.

e) *Adjusted Earnings before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”)*

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

The following tables provide a reconciliation of our IFRS Operating Income to the Adjusted EBITDA:

Three months ended June 30,						
(in millions)	2015			2014		
	Per consolidated financial statements	Adjustments	Adjusted EBITDA	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	\$ 0.2	\$ 1.9 <sup>(1)(2)</sup>	\$ 2.1	\$ 1.6	\$ 2.7 <sup>(1)(2)</sup>	\$ 4.3

Year ended June 30,						
(in millions)	2015			2014		
	Per consolidated financial statements	Adjustments	Adjusted EBITDA	Per consolidated financial statements	Adjustments	Adjusted EBITDA
Operating Income (EBITDA)	\$ 8.5	\$ 8.6 <sup>(1)(2)</sup>	\$ 17.1	\$ 6.0	\$ 10.3 <sup>(1)(2)(3)</sup>	\$ 16.3

**Notes:**

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per the Statement of Cash Flows.
- (2) Share-based compensation and amortization of property and equipment per the Statement of Operations and the Statement of Cash Flows, respectively.
- (3) Post-retirement benefits per Note 11 of the F2015 Consolidated Financial Statements.

## FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

### Performance Overview

During the fourth quarter of fiscal 2015, we continued to execute on our strategic and operational objectives, including sales expansion into the corporate and healthcare industry verticals and enhancement of our product and service portfolio.

#### Q4-F2015 overview:

##### *Annual Contract Value and Billings*

- Commercial ACV Base increased 2% from Q3-F2015, as quarterly Net ACV Retention was 102% and an additional \$0.5 million in ACV was added through new customer acquisition
- Total Billings of \$29.0 million, a year-over-year decrease of 6% compared to \$30.7 million in Q4-F2014
- Billings of Absolute DDS decreased 7% compared to Q4-F2014, while Endpoint management and Service Billings consistent with the prior year period

##### *Operations and Corporate*

- Substantially concluded the reorganization of the North American sales organization, and completed our revised product and market positioning and new brand strategy
- Appointed new sales leadership for each of the Asia-Pacific and EMEA regions
- Appointed Art Coviello, former chairman of RSA and executive vice president of EMC, as an Advisor
- Paid a \$2.6 million dividend (CAD\$0.07 per common share) during the quarter

##### *Technology*

- Announced an agreement with Dell to embed our Persistence technology in Android-powered Dell devices

## **F2015 overview:**

### ***Annual Contract Value and Billings***

- Commercial ACV Base increased 5% from F2014, as quarterly Net ACV Retention averaged 101% and an additional \$3.1 million in ACV was added through new customer acquisition
- Total Billings of \$101.3 million, representing 4% year-over-year growth, with commercial Billings increasing 6% year-over-year
- Absolute DDS Billings increased 6% year-over-year and Endpoint Management and Service Billings increased 2% year-over-year

### ***Operations***

- Clarified and articulated a revised corporate strategy with a singular focus on the Company's largest and most differentiated market opportunity, endpoint security. Aligned corporate resources around this strategy and set in place a plan to divest non-core assets
- Reorganized the North American sales force to increase focus and return on investment. This included the creation of distinct retention and new business acquisition teams; concentrating field resources around major metropolitan areas and targeted industry verticals of corporate and healthcare; and creating a leveraged inside and outside team structure
- Improved the leadership strength of the organization through the appointment of industry veterans to the board of directors, senior leadership team, product management, sales and development functions
- Achieved \$23.0 million in Cash from Operating Activities, a 49% year-over-year increase, and paid \$10.1 million (CAD\$0.27 per common share) in dividends
- Repurchased 399,400 common shares pursuant to our Normal Course Issuer Bid for a total investment of \$2.4 million

### ***Technology***

- Released Absolute DDS Event Calling, which allows customers to receive immediate alerts based on user-defined criteria
- Expanded Persistence® technology to new device models with existing OEM partners HP, Panasonic and Getac
- Partnered with worldwide mobile device manufacturers, Prestigio and YEZZ, and Latin American manufacturers Positivo and Lanix to embed Persistence® technology
- Launched the device freeze offline policy for Absolute DDS customers, allowing users to set a timer so that a device will self-secure if it remains offline for a specific period of time
- Extended Absolute DDS Mobile Theft Management service to Chromebooks to provide theft prevention and recovery services to North American K12 organizations for this new form factor
- Launched a closed beta of the next generation Absolute DDS architecture, which includes enhanced reporting and new endpoint data detection features

## Billings

Total Billings in Q4-F2015 were \$29.0 million, representing a 6% decrease compared to \$30.7 million in Q4-F2014. For the year, F2015 total Billings were \$101.3 million, up 4% from \$97.3 million in F2014.

The following table shows Billings by commercial and consumer products:

(in Millions)	Q4 F2015	Q4 F2014	Increase (decrease)	YTD F2015	YTD F2014	Increase (decrease)
Commercial products						
Theft Management <sup>(1)</sup>	\$ 18.0	\$ 18.9	(5%)	\$ 62.0	\$ 58.4	6%
Data Protection <sup>(2)</sup>	6.5	7.4	(13%)	23.6	22.3	6%
Endpoint Management and Service <sup>(3)</sup>	3.6	3.6	(0%)	11.9	11.7	2%
Total Commercial Sales	28.1	29.9	(6%)	97.5	92.4	6%
Consumer Sales	0.9	0.8	12%	3.8	4.9	(22%)
Total Billings	\$ 29.0	\$ 30.7	(6%)	\$ 101.3	\$ 97.3	4%

(1) **“Theft Management”** products are defined as Absolute DDS Premium products, which include an investigation and recovery service component.

(2) **“Data Protection”** products are defined as Absolute DDS Professional and Standard products, which do not include an investigative services component.

(3) **“Endpoint Management and Service”** products are defined as our Absolute Manage and Absolute Service products.

### Commercial Product Sales Performance:

Our commercial product line consists of sales of our Absolute DDS, Absolute Manage (including MDM) and Absolute Service product solutions. We sell these products and related services into four primary market verticals: education, corporate, healthcare and government. Our primary sales channels for this business are our OEM partners, as well as through distributors and value-added resellers. The rate of growth across our product lines is expected to fluctuate depending on the inherent timing of sales and, accordingly, it is not unusual for quarterly growth rates for individual product lines to be significantly different than those for the year to date periods.

Invoiced sales to commercial customers increased 6% in F2015 compared to F2014, but decreased 6% in Q4-F2015 compared to the prior year. Invoiced sales in F2015 were positively impacted by growth in the combined education and government verticals, which increased 10% in F2015 compared to F2014, and increased 3% in Q4-F2015 compared to the prior year period. The combined corporate and healthcare verticals remained consistent with F2015 as compared to the prior year, and decreased 20% in Q4-F2015 compared to Q4-F2014. The combined corporate and healthcare verticals represented 42% of our F2015 commercial Billings compared to 45% in F2014, and were 34% of our Q4-F2015 commercial Billings compared to 40% in the prior year. The year over year decrease in Q4-F2015 Billings to the corporate and healthcare verticals was associated with a significant decrease in the percentage of Billings from new customers, which we believe was impacted by disruption associated with the restructuring of our sales force during F2015 (see Sales Model above). Billings from new customers represented 7% of total commercial Billings in Q4-F2015 compared to 17% of total commercial billings in Q4-F2014 and represented 11% of F2015 commercial Billings compared to 20% in F2014.

Total commercial Billings originating from North America increased 9% in F2015 compared to the prior year and decreased 6% in Q4-F2015 compared to Q4-F2014. Total international commercial Billings in F2015 decreased 17% compared to the prior year and decreased 9% in Q4-F2015 compared to Q4-F2014. In F2015, Billings from North America represented 85% of total commercial Billings compared to 81% in F2014. North American Billings represented 88% of total commercial Billings in Q4-F2015, consistent with 88% in Q4-F2014. The overall decrease in international Billings in F2015 compared to the prior year reflects lower Absolute DDS sales in the EMEA, Asia Pacific, and Latin American regions in F2015.

*Theft Management Products and Services:* Commercial Billings from our Theft Management products and services increased 6% in F2015 compared to F2014, but decreased 5% in Q4-F2015 compared to Q4-F2014. The annual increase reflects the growth in our North American commercial business.

*Data Protection Products and Services:* Commercial Billings for our Data Protection products and services increased 6% in F2015 compared to the prior year, but decreased 13% in Q4-F2015 as compared to Q4-F2014. The changes in Billings for our data protection products reflect the changes in Billings to the corporate and healthcare verticals.

*Endpoint Management and Service Products and Services:* Commercial Billings for our Endpoint Management and Service products and services increased 2% for F2015 compared to the prior year, and remained consistent with Q4-F2015 as compared to Q4-F2014. The performance of these product lines in F2015 partially reflects the de-emphasis of these products during the year as we focused on sales of our Absolute DDS products (see “Intent to Divest – Absolute Manage and Absolute Service”).

*Consumer Sales Performance:*

Our consumer business consists of sales of our consumer-branded product suite, which is sold either in a white-label format through our partners or is branded as LoJack® for Laptops. Our primary sales channels for these products include our OEM partners, as well as other distribution channels such as online and traditional retailers. Most renewal business is completed directly with our end customers.

Sales of our consumer product have been impacted in recent years by a reduced emphasis on our consumer business, as we focus on the commercial sector market opportunity. Consumer sales decreased 22% in F2015 compared to the prior year, but increased 12% in Q4-F2015 compared to Q4-F2014. Consumer sales accounted for 4% of F2015 Billings, compared to 5% in the prior year.

**Commercial Annual Contract Value Base**

Our Commercial ACV Base increased 2% sequentially in Q4-F2015 and increased 5% for F2015. The increase was driven by existing customer Net ACV Retention of 102% combined with new customer ACV of \$0.5 million in Q4-F2015. For F2015, existing customer quarterly Net ACV Retention averaged 101% and we acquired \$3.1 million in ACV from new customers.

## Revenue

Revenue increased 3% to \$93.6 million in F2015 compared to \$91.0 million in F2014, and remained consistent in Q4-F2015 at \$23.3 million, compared to \$23.3 million in Q4-F2014. The increased revenue for the year resulted primarily from a 5% increase in revenues from our commercial core Absolute DDS products. The revenue achievement in Q4-F2015 as compared to Q4-F2014 was attributable to an increase in revenues from our commercial DDS products, which was offset by decreased revenue from our consumer products and lower professional services revenue. The percentage of recurring (term license) Billings in F2015 was 95% compared to 94% in F2014 and was 96% in Q4-F2015 compared to 94% in Q4-F2014.

The majority of our revenue is derived from the amortization of Billings from the prior year's deferred revenue balance. As the average contract life of Billings is approximately 36 months, historically only 15-25% of reported Billings for any given fiscal year are included in revenue for that particular year. The remainder is included in deferred revenue on the statement of financial position. See the "Subscription Business Model" section of this MD&A for further discussion, and the table below for a breakdown of revenue recognized from current fiscal year and prior period Billings:

(in millions)	YTD Fiscal 2015	YTD Fiscal 2014
Revenue recognized from:		
Prior year deferred revenue	\$ 71.1	\$ 68.1
Current year Billings	22.5	22.9
Total	\$ 93.6	\$ 91.0
Percent of revenue from current year Billings	24%	25%

## Adjusted Operating Expenses<sup>(1)</sup>

(Millions of dollars)

	Q4 Fiscal 2015	Q4 Fiscal 2014	Percentage increase (decrease)	YTD Fiscal 2015	YTD Fiscal 2014	Percentage increase (decrease)
Cost of revenue ("COR") <sup>(1)</sup>	\$ 3.9	\$ 3.7	6%	\$ 14.3	\$ 14.5	(1%)
Sales and marketing ("S&M")	11.8	10.7	10%	42.3	41.1	3%
Research and development ("R&D")	3.2	2.1	54%	11.5	11.0	4%
General and administration ("G&A") <sup>(1)</sup>	2.3	2.6	(10%)	8.4	8.1	4%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>\$ 21.2</b>	<b>\$ 19.1</b>	<b>11%</b>	<b>\$ 76.5</b>	<b>\$ 74.7</b>	<b>2%</b>
Number of employees at June 30	<b>444</b>	413	8%	<b>444</b>	413	8%

### ADJUSTMENTS:

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

## Adjusted Operating Expenses and EBITDA as a Percentage of Revenue<sup>(1)</sup>

(percentage of Revenue)	Q4 Fiscal 2015	Q4 Fiscal 2014	YTD Fiscal 2015	YTD Fiscal 2014
Cost of revenue ("COR") <sup>(1)</sup>	17%	16%	15%	16%
Sales and marketing ("S&M")	51%	46%	45%	45%
Research and development ("R&D")	14%	9%	12%	12%
General and administration ("G&A") <sup>(1)</sup>	10%	11%	9%	9%
<b>Adjusted Operating Expenses<sup>(1)</sup></b>	<b>91%</b>	<b>82%</b>	<b>82%</b>	<b>82%</b>
<b>Adjusted EBITDA<sup>(1)</sup></b>	<b>9%</b>	<b>18%</b>	<b>18%</b>	<b>18%</b>

### ADJUSTMENTS:

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

Total Adjusted Operating Expenses increased in the annual and Q4 periods of F2015 as compared to F2014, while revenue increased 3% in F2015, but was unchanged in Q4-F2015 as compared to Q4-F2014. As a result, our Adjusted Operating Expenses as a percentage of revenue was consistent in F2015 with F2014 at 82%, while increasing to 91% of revenue in Q4-F2015 as compared to 82% of revenue in Q4-F2014. As a result, Adjusted EBITDA was 18% and 9% of revenue in the annual period and Q4 of F2015, compared to 18% and 18% of revenue, respectively, in F2014.

Total Adjusted Operating Expenses were impacted positively in F2015 by the impact of a weakened Canadian dollar, effectively reducing the costs of our Canadian-based expenditures, which comprise nearly half of our overall Adjusted Operating Expenses. In Q4-F2015, this impact was offset by increased sales and marketing expenses in connection with the reorganization of the sales force, as well as specific marketing initiatives undertaken in support of growth in F2016.

### *Cost of Revenue and Gross Margin*

Cost of revenue includes the costs of operating our SaaS-hosted infrastructure, customer support, professional services and theft investigation and recovery services as well as service guarantee costs.

Cost of revenue decreased to \$17.7 million in F2015 from \$19.7 million in F2014, representing a 10% decrease, and decreased 16% to \$4.4 million in Q4-F2015 from \$5.2 million in Q4-F2014. In F2015, we incurred lower levels of amortization expense related to acquired intangible assets as certain product-related intangibles related to prior business acquisitions are now fully amortized.

On an adjusted basis, cost of revenue decreased to \$14.3 million in the year, down 1% from \$14.5 million in F2015, and was \$3.9 million in Q4-F2015, an increase of 6% compared to \$3.7 million in the prior year. The decrease in the year was attributable to lower levels of employee-related expenses as a result of the weakened Canadian dollar and slightly lower average headcount, offset by increased consulting and infrastructure expenses. The increase in adjusted cost of revenue in Q4-F2015 is a result of the same factors, however, the increases noted were greater than the lower headcount expenses. We exited Q4-F2015 with a headcount of 85 in this area, as compared to 88 at June 30, 2014.

Gross margin in the Q4 and annual periods of F2015 was 81%, compared to 78% in the Q4 and annual periods of F2014. When considering Adjusted Cost of Revenue, gross margin was 83% and 85% in the Q4 and annual periods of F2015, compared to 84% and 84% in the comparable periods of F2014.

### *Sales and Marketing*

In F2015, S&M expenses were \$42.3 million, up marginally from \$41.1 million in F2014. In Q4-F2015, sales and marketing expenses were \$11.8 million compared to \$10.7 million in Q4-F2014. As a percent of revenue, S&M expenses in F2015 were consistent with F2014 at 45%, however, these expenses increased in Q4-F2015 to 51%, as compared to 46% in Q4-F2014.

The increase in S&M expense in F2015 was driven primarily by increased personnel-related expenses as we realigned and expanded our sales resources during the year. In addition, we incurred increased commercial partner marketing and marketing program expenses as a result of a number of initiatives. These increases were mitigated by the impact of the weakened Canadian dollar, and a general reduction in expenses in support of our consumer business. In Q4-F2015, the same factors were at play, however, the impact of increased marketing expenditures was more pronounced as compared to Q4-F2015. We exited Q4-F2015 with a headcount of 190 in sales and marketing, as compared to 180 at June 30, 2014.

We undertake a number of general sales and marketing initiatives including: participation in tradeshow and partner events; market development programs with partners; public and industry analyst relations; webinars; and advertising expenditures. These expenditures are incurred to increase awareness with partners and customers, drive coverage with industry analysts and help to establish Absolute's global leadership position.

### *Research and Development*

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

Research and development expenditures increased 4% in F2015 to \$11.5 million from \$11.0 million in F2014, and increased 54% to \$3.2 million in Q4-F2015, compared to \$2.1 million in Q4-F2014. When measured as a percentage of revenue, R&D expenses were consistent in F2015 compared to F2014, at 12% in each year, but were higher in Q4-F2015 as compared to Q4-F2014, at 14% and 9%, respectively.

The quarterly and annual increase in R&D expense was driven by increased employee-related expenses as a result of higher headcount. These expenses were offset by the impact of foreign exchange, as the majority of these costs are incurred in Canadian dollars. In addition, the increase in Q4-2015 compared to the prior year period was impacted as a result of a positive adjustment to recorded estimates of ITCs as a result of acceptance of certain of our historical claims in Q4-F2014. Total ITCs recorded were \$2.1 million in both F2015 and F2014, while the amount recorded in Q4-F2015 was \$0.4 million compared to \$1.2 million in Q4-F2014. We exited Q4-F2015 with a headcount of 120 in research and development, compared to a closing headcount of 110 at June 30, 2014.

We continue to focus our research and development efforts on adding new features and services, increasing product functionality, integrating our products and enhancing the ease of use of our products and services.

### *General and Administration*

General and administration expenses decreased 11% to \$10.0 million in F2015 as compared to \$11.3 million in F2014, and decreased to \$2.7 million in Q4-F2015 compared to \$3.4 million in Q4-F2014.

Adjusted G&A expenses increased to \$8.4 million in F2015 compared to \$8.1 million in F2014, however, these expenses decreased in Q4-F2015 to \$2.3 million compared to \$2.6 million in Q4-F2014. When measured as a percentage of revenue, adjusted G&A expenses were 9% in F2015, consistent with 9% in F2014, and decreased to 10% in Q4-F2014 compared to 11% in the prior year.

The decrease in G&A expenses in F2015 is primarily due to significant one-time post-retirement benefits in the amount of \$1.8 million paid to two former senior officers. Of this amount, \$0.4 million was incurred in Q4-F2014, resulting in the decrease in that period compared to the prior year.

The increase in adjusted G&A expenses in F2015 was primarily the result of increased employee-related expenses, including travel. In addition, we incurred increased expenses relating to upgrades of internal systems and infrastructure to accommodate increased business activity. We exited Q4-F2015 with a headcount of 49 in general and administration, compared to 35 at June 30, 2014. The increase in headcount is primarily associated with IT and operational headcount whose costs are allocated across the organization.

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

## **Operating Income and Adjusted EBITDA**

Absolute generated Adjusted EBITDA of \$17.1 million, up 5% from \$16.3 million in F2014. In Q4-F2015, we generated \$2.1 million of Adjusted EBITDA, down 51% from \$4.3 million in Q4-F2014. We generated IFRS operating income of \$0.2 million and \$8.5 million in the Q4 and annual periods of F2015, respectively, compared to \$1.6 million and \$6.0 million in F2014. As a percentage of revenue, Adjusted EBITDA remained consistent at 18% in F2015 compared to F2014, but decreased to 9% in Q4-F2015 compared to 18% in Q4-F2014. The adjusted EBITDA results in the current year are the result of a revenue increase of \$2.7 million, while Adjusted Operating Expenses increased by \$1.8 million compared to the prior year, while in Q4-F2015 revenue remained consistent on a year over year basis while adjusted operating expenses increased by \$2.1 million.

## **Other Income and Expenses**

Absolute earns interest income on its cash and investment resources beyond immediate operating requirements. We recorded interest income of \$223,000 in F2015, up from \$205,000 in F2014, and interest income of \$90,000 in Q4-F2015 compared to \$34,000 in Q4-F2014.

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

In F2015, we experienced a foreign exchange loss of \$478,000 compared to \$14,000 in F2014. In Q4-F2015, we experienced a foreign exchange loss of \$69,000, as compared to a loss of \$18,000 in the comparative period. The losses in F2015 are the result of appreciation of the U.S. dollar compared to the Canadian dollar, which resulted in foreign exchange losses on our Canadian dollar denominated net assets. These losses were mitigated by foreign exchange gains on our British pound denominated assets. In F2014, the quarterly loss was the result of the appreciation of the U.S. dollar compared to the Canadian dollar, which was offset in the annual period by the appreciation of the British pound compared to the U.S. dollar.

## **Income Taxes**

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

In F2015, we recorded current tax expense of \$4.2 million and a deferred tax recovery of \$540,000, as compared to a current tax expense of \$1.4 million and deferred tax expense of \$1.3 million in F2014.

The difference between our effective tax rate in F2015 of 44.0% (F2014 – 33.7%) and our expected tax rate of 26.00% (F2014 – 26.00%) is primarily due to the interplay of the factors mentioned above. In F2015, our effective tax rate was impacted by non-deductible expenses, including share based compensation, and the impact of income in foreign jurisdictions.

In F2015 our current tax payable was partially offset by ITCs to be claimed, which are presented as a reduction of research and development expenses. In F2014, these ITCs fully offset taxes that were otherwise payable.

## **Net Income**

The Company recorded a net loss in Q4-F2015 of \$0.7 million as compared to net income of \$0.8 million in Q4-F2014. For F2015, we recorded net income of \$4.6 million, an increase from \$3.6 million in F2014. The current year net income reflects the impact of higher IFRS operating income, the impact of higher foreign exchange losses, and increased income tax expense.

## **Cash from Operating Activities**

In Q4-F2015, we recorded cash from operating activities of \$2.7 million, an increase of 38% from \$1.9 million in Q4-F2014. For the year, cash from operating activities was \$23.0 million, an increase of 49% from \$15.5 million in F2014. Our cash from operations represented 12% of our Q4-F2015 revenue and 25% of our annual revenue, compared to 8% and 17% in F2014. The increase in cash from operating activities in the current period reflects higher Billings, while Adjusted Operating Expenses increased by a smaller magnitude. The increase was also impacted by changes in working capital.

## **Liquidity and Capital Resources**

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At June 30, 2015, our cash, cash equivalents and investments were \$85.8 million, compared to \$73.6 million at June 30, 2014. The Company's cash and investment position has improved on operating cash flows, an amount of \$6.0 million on proceeds from stock option exercises, less a cash outlay of \$10.1 million on our quarterly dividends. In addition, we repurchased \$2.4 million of our common shares, and invested \$3.3 million in property and equipment and intangible assets. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company expects slightly higher capital expenditures for F2016 as compared to F2015, largely due to investments in our hosted SaaS infrastructure. Given our strong cash and investment balances and operating cash flow, at this time management does not believe we require any additional capital resources.

On August 17, 2015, we announced the authorization of a Substantial Issuer Bid pursuant to which Absolute will offer to purchase up to CAD\$50,000,000 of our common shares. The offer is expected to commence on or about August 25, 2015 and will expire on October 5, 2015, unless terminated or extended by the Company.

### *Accounts receivable*

Accounts receivable balances decreased to \$20.9 million at June 30, 2015 (72% of Q4-F2015 Billings) from \$22.0 million at June 30, 2014 (71% of Q4-F2014 Billings). This decrease is primarily due to lower sales volumes in Q4-F2015 as compared to Q4-F2014.

At June 30, 2015, 5% of the Company's accounts receivable balance was over 90 days past due as compared to 9% at June 30, 2014. At June 30, 2015, accounts receivable included four OEM and reseller partners that represented more than 10% of receivables, at 23%, 17%, 17%, and 12%, respectively. At June 30, 2014, the same partners comprised 19%, 15%, 9%, and 20%, respectively, of our total accounts receivable.

### *Accrued warranty*

Accrued warranty is related to a service guarantee associated with certain of our products. The accrued warranty was \$0.4 million at June 30, 2015 and 2014. Each period, management evaluates our guarantee payment experience and considers whether changes are required to the estimated warranty provision.

### *Deferred revenue*

Deferred revenue was \$135.3 million at June 30, 2015, compared to \$137.0 million at June 30, 2014, a decrease of 1%. Deferred revenue is comprised of the unamortized portion of deferred revenue from Billings, which is amortized to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	<b>F2016</b>	<b>F2017</b>	<b>F2018</b>	<b>F2019</b>	<b>F2020</b>	<b>Total</b>
Revenue to be recognized	\$68.8	\$41.0	\$19.7	\$4.8	\$1.0	\$135.3

### *Deferred income tax assets and current taxes payable*

At June 30, 2015, we had current taxes payable of \$2.0 million. At June 30, 2014, we had no current taxes payable, as our current tax expense was offset by our expected claims for SRED ITCs.

At June 30, 2015, we had total deferred income tax assets of \$20.5 million, which are primarily attributable to the future benefit of deferred revenue balances in our U.S. operations. Management believes these deferred income tax assets are more likely than not to be realized.

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

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

### **Outlook**

We remain confident in the market opportunity for our solutions. For F2016, we expect Billings and revenue from our Absolute DDS products to increase over F2015 levels. In addition, we expect cash generated from operating activities, not including the payment of income taxes, to remain in line with the level reported in F2015.

## Shareholders' Deficiency and Outstanding Share Data

At June 30, 2015, Absolute had a shareholders' deficiency of \$13.1 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$135.3 million of deferred revenue and the \$9.4 million of liabilities related to assets held for sale carried on the statement of financial position. Deferred revenue represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which management expects to generate high margins when recognized in income, as much of the associated contract acquisition costs are already included in the operating deficit. In addition, any common shares repurchased as part of our Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit.

The Company's common shares trade on the TSX (TSX: ABT) and at June 30, 2015 the Company had 44,862,344 (August 17, 2015 – 44,323,455) fully issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at June 30, 2015:

- Stock Option Plan: 4,202,925 (August 17, 2015 – 4,115,050) common stock options granted and outstanding. The options have a weighted average exercise price of \$6.63 per share and a weighted average term to expiry of 2.9 years. There were 1,687,500 options granted in F2015.
- Phantom Share Unit ("PSU") Plan: 516,365 (August 17, 2015 – 516,365) PSUs granted and outstanding. The PSUs have a weighted average term to expiry of 2.3 years. There were 616,990 PSUs granted in F2015.
- Share Purchase Plan: Under the Purchase Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million shares have been reserved for grant under the Plan, of which 1,507,854 have been issued as at June 30, 2015 (August 17, 2015 - 1,575,265).

## Contractual Commitments

The Company's minimum payments required under operating leases for premises, equipment and business service agreements, technology purchase agreements, and a branding agreement are as follows as at June 30, 2015:

2016	\$ 2,726,560
2017	2,296,465
2018	2,089,004
2019	768,892
2020 and thereafter	165,772
	<hr/>
	<b>\$ 8,046,693</b>

## Off Balance Sheet Arrangements

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

## Corporate Developments

In July 2015, we announced our intention to divest our Absolute Manage and Absolute Service product lines in order to focus our efforts and resources on our core Absolute DDS product, which we believe represents our largest and most significant market opportunity. These assets, comprised of intangible assets, and associated deferred revenue were reclassified as held for sale as of June 30, 2015.

## Related Party Transactions

### *Key management personnel compensation*

	Year ended June 30,	
	2015	2014
Salaries, bonus, and short-term employment benefits	\$ 2,267,808	\$ 2,727,651
Post-retirement benefits	-	1,808,597
Share-based compensation	2,309,809	490,193
	<b>\$ 4,577,617</b>	<b>\$ 5,026,441</b>

In 2015, 18 individuals (2014 – 12 individuals) were included in key management personnel.

## Subsequent Events

### *Employee Share Purchase plan*

On July 16, 2015, 67,411 common shares were issued pursuant to the Employee Share Purchase Plan.

### *Quarterly dividend*

On July 15, 2015, the Company declared a quarterly dividend of CAD\$0.07 per share on its common shares, payable in cash on August 27, 2015 to shareholders of record at the close of business on August 6, 2015.

### *Normal Course Issuer Bid and Share repurchases*

On July 23, 2015, the Company received approval from the TSX to commence a Normal Course Issuer Bid on July 27, 2015 that enables the Company to purchase and cancel up to 4,041,591 of its common shares. The Bid allows for the purchase of up to 33,340 common shares on a daily basis until July 26, 2016, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to July 27, 2015, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the "Bids").

Under the Bids, subsequent to June 30, 2015, through August 18, 2015, the Company has repurchased an additional 606,300 common shares for a total cost of \$3,938,527. The difference between the purchase price and the average book value of the common shares was \$3,136,278. These amounts have been recorded in share capital and deficit and in accrued liabilities.

### *Substantial Issuer Bid*

On August 17, 2015, we announced the authorization of a Substantial Issuer Bid (“SIB”) pursuant to which Absolute will offer to purchase up to CAD\$50,000,000 of our common shares. The offer is expected to commence on or about August 25, 2015.

The SIB will be conducted through a “modified Dutch auction” within a price range of between CAD\$7.75 and CAD\$9.00 per share, in increments of CAD\$0.25 per Share within that range. The SIB will not be conditional based on any minimum number of Shares being tendered to the SIB, but will be subject to other conditions customary for a transaction of this nature. The SIB will expire on October 5, 2015, unless terminated or extended by the Company. All shares purchased by Absolute in the SIB will be purchased at the same price, and will be funded by cash on hand. Our Normal Course Issuer Bid (see “Normal Course Issuer Bid and Share repurchases” above) will be suspended and no purchases will be completed subsequent to August 17, 2015 until the SIB is complete.

## **Financial Instruments**

### *Overview*

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company’s risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed have not changed from the year ended June 30, 2014.

### *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 Billings were recorded into deferred revenue, and as a result the Company’s operating loss increases in periods when the Canadian dollar appreciates.

### *Foreign Currency Sensitivity Analysis*

The Company typically does not enter foreign currency hedges. Further appreciation in the Canadian dollar relative to the U.S. dollar could impact the Company’s ability to continue at current operating margins as a significant amount of operating costs are denominated in Canadian dollars.

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 \$355,000 in annual operating and 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 \$85,000 in annual operating income and a \$55,000 decrease in net income. For a 1% weakening of the Canadian dollar or U.K. pound against the U.S.

dollar, there would be an equal and opposite impact on operating income and net income.

#### *Liquidity Risk*

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

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

#### *Credit Risk*

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

The Company manages credit risk related to accounts receivable by carrying out credit investigations for new customers and partners, and by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. At June 30, 2015, accounts receivable are reported net of allowance for doubtful accounts of \$256,000 (June 30, 2014 - \$431,000).

At June 30, 2015, 5% of the Company's accounts receivable balance is over 90 days past due (June 30, 2014 – 9%). As at June 30, 2015, 23%, 17%, 17%, and 12% (June 30, 2014 - 19%, 15%, 9%, and 20%) of the receivable balances are owing from four OEM and reseller partners.

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

#### *Fair Values of Financial Instruments*

The carrying value of cash and cash equivalents, 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. The carrying value of investments carried at amortized cost approximates their fair value as the interest rate environment has not changed significantly from the date of purchase.

## Quarterly Operating Data

(in millions except per share data)

	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14	Q1-14
Billings <sup>(1)(2)</sup>	\$29.0	\$21.2	\$25.2	\$26.1	\$30.7	\$20.5	\$22.2	\$23.8
Revenue	23.3	24.1	23.1	23.2	23.3	24.1	21.9	21.7
Adjusted EBITDA <sup>(2)</sup>	2.1	6.8	4.0	4.3	4.3	5.2	3.5	3.3
Net (loss) income	(0.7)	2.8	2.2	0.3	0.8	1.4	0.2	1.1
Basic and diluted (loss) income per share	(0.02)	0.06	0.05	0.01	0.02	0.03	0.01	0.03
Cash from Operating Activities	2.7	5.3	6.3	8.7	1.9	3.8	4.4	5.4
Operating cash per share (basic) <sup>(2)</sup>	0.10	0.12	0.14	0.20	0.04	0.09	0.10	0.13
Dividends paid	2.6	2.5	2.7	2.4	2.4	2.4	2.5	2.0
Repurchases of common shares	0.0	0.0	2.1	0.2	-	-	-	-
Number of common shares outstanding	44.8	44.8	44.1	43.9	43.8	43.7	43.2	42.7

(1) Please refer to the "Seasonality" section of this MD&A.

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

### **Critical Accounting Policies and Estimates**

Management considers the Company's accounting for Billings, intangible assets (relating to deferred contract costs) and deferred taxes to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Billings represent invoiced sales for subscriptions to Absolute's services and software that are included in deferred revenue and amortized to revenue ratably over the contract term, commencing in the month after sale. A majority of Absolute's Billings are transacted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders come in various forms from reseller partners. Absolute ships the software if applicable, commences the subscription term and invoices the reseller and reports this as a Billing for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns and/or reversals is kept to a minimum. These Billings are recorded as a receivable and deferred revenue item at the time of sale (and not included in revenue at the time) and no estimates for returns, bad debts and reversals are made until such time as subsequent evidence suggests such an estimate is required.

Deferred contract costs represent expenses that are generated or incurred at the start of each service subscription (or Billing) and are primarily comprised of prepaid employee sales commissions. These items are capitalized on the statement of financial position as a portion of intangible assets and are amortized into sales and marketing expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Billing to which the expense relates. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this deferred asset.

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

### **Recent Accounting Pronouncements**

The International Accounting Standards Board 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.

The following is a description of the new or amended standards:

#### **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). The effective date of these amendments has not yet been determined. The Company has not yet assessed the impact of the adoption of IFRS 9 on its financial performance or its financial position.

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

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and uncertainty of revenue and cash flows arising from a contract with a customer. The standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Company has not yet assessed the impact of the adoption of this standard on its financial performance or its financial condition.

### **Accounting Changes Adopted in F2015**

The following new or amended standards were adopted in the year ended June 30, 2015:

#### IAS 32 – *“Financial Instruments: Presentation”* (“IAS 32”)

Amendments to IAS 32 provided specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists, and when an entity meets the criterion for the intent to settle on a net basis. The adoption of the amendments to IAS 32 did not affect our financial performance or financial position.

#### IAS 36 – *“Impairment of Assets”* (“IFRS 36”)

Amendments to IAS 36 restricted the requirement to disclose the recoverable amount of an asset or cash generating unit (“CGU”) to periods in which an impairment loss has been recognized or reversed. The amendments also expanded and clarified the disclosure requirements applicable when an asset or CGU’s recoverable amount has been determined on the basis of fair value less cost of disposal. The adoption of the amendments to IAS 36 did not affect our financial performance or financial position.

## **Evaluation of Disclosure Controls and Internal Controls over Financial Reporting**

### *Disclosure controls and procedures*

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

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

### *Internal control over financial reporting*

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Absolute's CEO and CFO have assessed the effectiveness of the Company's internal control over financial reporting as at June 30, 2015 in accordance with *Internal Control – Integrated Framework 2013*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, Absolute's CEO and CFO have determined that the Company's internal control over financial reporting is effective as at June 30, 2015 and expect to certify Absolute's annual filings with the Canadian securities regulatory authorities.

### *Changes in internal control over financial reporting*

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

## Risks and Uncertainties

The Company is selling and developing products and services for new and emerging markets and, as a result, faces a number of risks, many of which are outlined below.

**Economic Uncertainty** - Many of Absolute's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of stagnant economic conditions, political deadlock, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, and therefore impact its ability to meet its targets for Billings and Cash from Operating Activities, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

**Ability to Predict Rate of Growth and Profitability** – Absolute focuses on our Commercial ACV Base, Net ACV Retention, Billings and Cash from Operating Activities as our key performance metrics and management believes that IFRS profitability will approach the Company's Cash Margins as the rate of growth slows. However, due to the evolving SaaS business model and the unpredictability of our emerging category of security, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its sales growth. Absolute bases its current and future expense levels and its investment plans on estimates of future sales growth. Absolute may not be able to adjust its spending quickly enough if the rate of new or renewed subscriptions falls short of its expectations. As a result, Absolute's operating results may fluctuate significantly on a quarterly basis. In addition, Absolute's historic Billings, revenue and operating cash flow growth rates may not be sustainable and may decline in the future. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

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

Absolute's products and technologies are not available for all existing and emerging mobile computers and other mobile devices that are or will be available in the marketplace, and some features of Absolute's products are offered for only some devices. For example, Absolute Persistence technology is not currently embedded in Apple devices or on Google Chromebooks. Absolute targets its product development efforts towards those devices and operating systems that Absolute believes have the best

strategic value to the Company. However, Absolute may not be successful in identifying future trends in the marketplace for these devices on a timely basis, or in creating or adapting Absolute's products and features for enough of the devices that are available. If the present decline in PC sales continues, or if Absolute's customers replace their existing mobile computers and mobile devices with other devices for which Absolute has not developed products, our revenue may decline and our results from operations may suffer.

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

**Privacy Laws** – Absolute's customers use our service to transmit, receive and store certain identifying information regarding their mobile computing devices, including, in some instances, location information. Our Absolute DDS products and monitoring systems are developed to ensure that forensic components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented and used by Absolute's trained and authorized experts in the case of emergency and on the explicit instructions of our customers. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Location information may be obtained as part of normal use, and we instruct and rely on our customers to obtain the required notices and consents to geolocation tracking. If a customer fails to give the required notice or obtain the consent required by law, we may not be aware of the breach and could be in violation of applicable privacy laws. Federal, provincial, state and foreign government bodies and agencies are experiencing heightened sensitivity to privacy issues and have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries or jurisdictions.

**Breach of Security Measures and Unauthorized Access** – The Company's service involves the storage and transmission of certain customer information, and internal or external security breaches could expose the Company to a risk of loss of this information, litigation and possible liability. Absolute's technology and security measures have been designed and implemented in order to mitigate risks of this nature. However, if our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, during the transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to our data or our customers' data, our reputation could be damaged, our business may suffer and Absolute could incur significant liability. The Company may be

unable to anticipate new attack techniques or may not have time to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and Absolute could lose sales and customers. In addition, our customers may authorize third-party service providers to access their customer data. Because the control of these third-party service providers is undertaken by our customers, Absolute cannot ensure the complete integrity or security of such transmissions or processing.

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

**Research and Development** - Over the long term, while Absolute continues to focus on managing our costs and expenses, we also intend to accelerate our investment in research and development activities as we focus on organic growth through internal innovation. We believe that we must continue to dedicate a significant amount of resources to our research and development efforts to maintain our competitive position. We recognize the costs associated with these research and development investments earlier than the anticipated benefits, and the return on these investments may be lower, or may develop more slowly, than we expect. If we spend significant resources on research and development and are unable to generate an adequate return on our investment, our business, results of operations and Cash from Operating Activities may be materially and adversely affected.

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

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

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

**Divestiture of Absolute Manage and Absolute Service** - In July 2015, we announced our intention to divest our Absolute Manage and Absolute Service product lines in order to focus our efforts and resources on our core Absolute DDS product, which we believe represents our largest and most significant market opportunity. We could be unsuccessful or delayed in completing the proposed divestiture, or be forced to complete it on terms or conditions that are less favorable and/or different than expected which could result in the Company’s business, operating results and financial condition being materially adversely affected. Furthermore, any significant delays or complications in relation to the divestiture could result in significant business disruption, increased costs, or both.

Following the proposed divestiture, the value of our common shares may not be equal to the value of our common shares had the proposed divestiture not occurred and our product line will not be as diversified as it has been historically. In addition, we expect to spend substantial time, money and effort on completing the proposed divestiture without any assurance that it will be completed. Our focus on completing the divestiture, and resource constraints resulting from that focus, could also adversely affect the execution of our overall business strategy. See the “Intent to Divest - Absolute Manage and Absolute Service” section for more details.

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

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

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

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

**Dependence on Distribution Channels** – Absolute generates a substantial portion of its revenue through OEM channels and its sales strategy is built upon Absolute’s ability to continue to maintain its BIOS and firmware positions with these partners and grow its reseller channels. Many of our distribution and

reseller arrangements are non-exclusive, and our products may compete with other products. If we fail to manage our sales and distribution channels effectively or if our partners choose to favour competing products, Absolute will have to change its sales strategy and may not be able to grow at the rates we anticipate.

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

**Customer Subscription Renewal Rates** – Absolute typically generates 75-85% of its annual Billings through purchases and subscription renewals from existing customers. Our customers’ renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with the services and their ability to continue their operations and spending levels. If our customers do not renew their service subscriptions, our revenue will decline and our business will suffer.

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

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

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;

- Announcements of technological innovations or acquisitions by us or by our competitors;
- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- The inability to divest, or delay in the proposed divesting of, our Absolute Manage and Absolute Service product lines;
- General market conditions;
- Foreign exchange rates; and
- Other risk factors as set out in this MD&A.

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

**Foreign Operations** – The Company intends to continue to pursue international market growth opportunities which could result in international sales accounting for an increasing portion of the Company’s consolidated revenues. The Company intends to commit increased resources over time to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the United States, the United Kingdom, Germany and Australia. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company’s consolidated revenues, the presence of such risks could have a material adverse effect on the Company’s business, operating results and financial condition.

**Fluctuation of Quarterly Results and Failure to Meet the Expectations of Analysts or Investors** – Absolute’s quarterly operating results are likely to fluctuate, and if Absolute fails to meet or exceed the expectations of securities analysts or investors, the trading price of its common stock could decline. Moreover, the stock price may be based on expectations of Absolute’s future performance that may be unrealistic or that may not be met. Absolute believes that quarter-to-quarter comparisons of its results should not necessarily be relied upon as a reliable indicator of future performance.

**Litigation or Dispute Resolution** – From time to time, we may be subject to litigation or dispute resolution relating to any number or type of claims, including claims for damages related to undetected errors or malfunctions of our services and products, claims related to previously-completed acquisition transactions, claims related to wrongful termination or employee matters, or claims relating to applicable securities laws. A product liability, patent infringement, acquisition-related, employee-related or securities class action claim could seriously harm our business because of the costs of

defending the lawsuit, diversion of employees' time and attention and potential damage to our reputation. Further, our services and products are complex and often implemented by our customers to interact with third-party technology. Claims may be made against us for damages properly attributable to those third-party technologies, regardless of our lack of responsibility for any failure resulting in a loss. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims and incur damage to the reputation of Absolute and our products. The likelihood of such claims and the amount of damages we may be required to pay may increase as our customers increasingly use our services and products. Our insurance may not cover potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

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

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

**The Effect of Amortization of Revenue Over the Term of the Subscription** – Absolute generally recognizes revenue from customer subscriptions ratably over the terms of the Billings. The average term is approximately 36 months, although terms under this model can range from one year to as much as five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to Billings entered into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, Absolute may be unable to adjust its cost structure to reflect the changes in Billings. Accordingly, the effect of significant downturns in sales and market acceptance of the Company's service or products may not be fully reflected in Absolute's results of operations until future periods. The Company's subscription model also makes it difficult to rapidly increase revenue through additional sales in any period, as revenue from new customers must be deferred and recognized over the applicable subscription term.

**Billings** – Management considers Billings to be one of the key financial performance indicators for the Company. Most Billings (greater than 80%) are conducted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders, which include ship dates, customer name, product, pricing and volume, come in various forms from the reseller partner (sales reports, purchase orders, shipping reports, royalty

reports, etc.). Absolute ships the software, commences the subscription term and invoices the reseller (and receives payment from the reseller) based on receipt of, or ship dates contained in, these forms of evidence of the end customer purchase, and reports this as a Billing for the applicable period. Accordingly, Absolute is relying upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns is kept to a minimum. Historically, Absolute's experience with returns has corroborated that this reliance is sufficient. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Billings and revenue performance. However, Absolute does not make a provision against Billings for potential returns because revenue recognition from Billings does not commence until the month after sale so there would be no income statement impact as a result of such provision, and the revenue recognition term averages approximately 36 months compared to industry standard return policies which are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in Billings and deferred revenue figures until a future period.

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

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

**Operating Environment** – Absolute DDS software that enables Absolute's product operates in a potentially disruptive environment. In addition, Absolute's DDS services rely upon a connection to the Absolute Monitoring Center. If the computer is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen computer. If Absolute is unable to successfully demonstrate to customers that the Absolute DDS Agent will call in, it may affect Absolute's ability to sell its Absolute DDS line of products.

**Legislative Risk** – New laws that restrict the manner in which we conduct forensic investigations, or our ability to track and recover missing devices, could negatively impact our revenue, profit, and cash flows. Certain investigative techniques may become prohibited in certain jurisdictions, or additional and more costly steps or changes to our technology may be required in order to comply with new laws. In addition, our business model may be inadvertently affected by laws intended to address other problems

that are receiving increasing attention from the media, the public and legislators. If these proposed laws do not include inappropriate exemptions for theft recovery, we may incur higher costs for lobbying and education efforts or may need to change our theft recovery methodology, our recovery success rate may decline and our service guarantee payments may increase.

**Consumer Product Liability** – With the expansion of its consumer business, as with all manufacturers of products and services designed for use by consumers, the Company may be subject to claims related to product liability and consumer protection legislation, particularly in the United States.

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

**Ability to Successfully Manage and Integrate Acquisitions and/or Dispositions**– We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. In November 2012, we purchased certain assets of LiveTime Software, Inc. and in June 2013 we purchased the assets of Palisade Systems. We may not realize future benefits from any of these past or future acquisitions nor be able to release new products and features arising from these acquisitions to market in a timely manner. If we fail to integrate successfully our past and future acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. The areas where we may face risks include:

- difficulties in integrating the operations, technologies, products and personnel of the companies we acquire into our operations;
- potential disruption of our on-going business and diversion of management's attention from normal daily operations of the business;
- insufficient revenues to offset increased expenses associated with acquisitions;
- potential for third party intellectual property infringement claims against the companies we acquire;
- failure to successfully further develop acquired technology, resulting in the impairment of amounts capitalized as intangible assets;
- impairment of relationships with customers and partners of the companies we acquire or in which we invest, or with our customers and partners, as a result of the integration of acquired operations;
- impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;

- impact of known potential liabilities or unknown liabilities associated with the companies we acquire;
- failure to adequately understand and mitigate the risks of new product lines and services; and
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

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

Future acquisitions or dispositions, including the proposed disposition of our Absolute Manage and Absolute Service product lines, could also result in dilutive issuances of our equity securities, a decrease in our cash and cash equivalents and short-term investments, the incurrence of additional expense related to compliance, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and negatively impact our operating results.

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

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

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

**Securities Analysts** – The trading market for Absolute's common stock is in part affected by the research and reports that independent industry or financial analysts publish about Absolute or its business. Absolute does not control these analysts. If one or more of the analysts who publish reports on Absolute were to downgrade Absolute's stock or lower future stock price targets or estimates of operating results, Absolute's stock price could be adversely affected. Furthermore, if one or more of these analysts cease coverage of Absolute, Absolute could lose visibility in the market, which in turn could cause Absolute's stock price to decline.