Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

As at June 30, 2014 and 2013

Independent Auditor’s Report

To the Shareholders of Absolute Software Corporation

We have audited the accompanying consolidated financial statements of Absolute Software Corporation, which comprise the consolidated statements of financial position as at June 30, 2014 and 2013, and the consolidated statements of operations and comprehensive income, consolidated statements of changes in shareholders' deficiency and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Absolute Software Corporation as at June 30, 2014 and 2013, and its financial performance and its cash flows for the years then ended, in accordance with International Financial Reporting Standards.

(signed) <<“Deloitte LLP”>>

Chartered Accountants
Vancouver, British Columbia
August 18, 2014

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Financial Position
June 30, 2014 and 2013
(Expressed in United States dollars)

	Notes	June 30, 2014	June 30, 2013
ASSETS			
CURRENT			
Cash and cash equivalents		**$ 40,928,539**	$ 31,114,998
Short-term investments	(Note 4)	**17,537,492**	13,165,606
Trade and other receivables	(Note 5)	**21,979,235**	18,196,955
Prepaid expenses and other		**1,917,665**	1,712,988
		82,362,931	64,190,547
INVESTMENTS	(Note 4)	**15,115,005**	18,639,550
PROPERTY AND EQUIPMENT	(Note 6)	**1,987,544**	1,294,249
DEFERRED INCOME TAX ASSETS	(Note 13)	**19,801,047**	20,340,047
INTANGIBLE ASSETS AND GOODWILL	(Note 7)	**18,535,582**	21,933,959
		$ 137,802,109	$ 126,398,352
LIABILITIES			
CURRENT			
Trade and other payables	(Note 8)	**$ 10,455,510**	$ 8,943,682
Accrued warranty	(Note 9)	**360,000**	420,000
Deferred revenue – current	(Note 10)	**71,144,393**	68,093,937
		81,959,903	77,457,619
DEFERRED REVENUE	(Note 10)	**65,818,337**	62,542,619
		147,778,240	140,000,238
COMMITMENTS	(Note 18)		
CONTINGENCIES	(Note 20)		
SHAREHOLDERS' DEFICIENCY			
Share capital	(Note 12(b))	**52,403,258**	41,690,749
Equity reserve		**35,141,530**	36,542,921
Deficit		**(97,520,919)**	(91,835,556)
		(9,976,131)	(13,601,886)
		$ 137,802,109	$ 126,398,352

SUBSEQUENT EVENTS (Note 21)

See accompanying notes to the Consolidated Financial Statements.

Approved on behalf of the Board:

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

(signed) "J. Ian Giffen"
J. Ian Giffen, Director

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Operations and Comprehensive Income

Years ended June 30, 2014 and 2013
(Expressed in United States dollars)

	Notes	2014	2013
REVENUE		**$ 90,979,104**	$ 83,178,357
COST OF REVENUE		**19,653,726**	19,726,415
GROSS MARGIN		**71,325,378**	63,451,942
OPERATING EXPENSES			
Sales and marketing		**41,089,480**	38,682,386
Research and development		**11,024,591**	11,428,539
General and administration		**11,282,581**	8,654,165
Share-based compensation	(Note 12(g))	**1,897,005**	2,295,051
		65,293,657	61,060,141
OPERATING INCOME		**6,031,721**	2,391,801
OTHER INCOME			
Interest income, net		**205,253**	182,206
Foreign exchange loss		**(14,322)**	(1,711)
Loss on investments	(Note 4)	**-**	(29,627)
		190,931	150,868
NET INCOME BEFORE INCOME TAXES		**6,222,652**	2,542,669
INCOME TAX EXPENSE	(Note 13)	**(2,650,800)**	(804,217)
NET INCOME AND TOTAL COMPREHENSIVE INCOME		**$ 3,571,852**	$ 1,738,452
BASIC AND DILUTED INCOME PER SHARE	(Note 12(h))	**$ 0.08**	$ 0.04
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 12(h))	**43,046,927**	42,345,547

See accompanying notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Changes in Shareholders' Deficiency
(Expressed in United States dollars)

	Share Capital				
	Number of Common shares	Amount	Equity reserve	Deficit	Total
BALANCE, JUNE 30, 2012	**43,757,803**	**$ 38,625,463**	**$ 35,751,185**	**$ (79,141,256)**	**$ (4,764,608)**
Shares issued on options exercised	796,636	4,816,877	(1,503,315)	-	3,313,562
Shares issued under Employee Share Purchase Plan	144,046	612,121	-	-	612,121
Shares repurchased and cancelled under the Normal Course Issuer Bid	(2,812,900)	(3,191,146)	-	(10,314,109)	(13,505,255)
Shares issued on acquisition	166,668	827,434	-	-	827,434
Share-based compensation expense	-	-	2,295,051	-	2,295,051
Dividends paid	-	-	-	(4,118,643)	(4,118,643)
Net income and total comprehensive income	-	-	-	1,738,452	1,738,452
BALANCE, JUNE 30, 2013	**42,052,253**	**$ 41,690,749**	**$ 36,542,921**	**$ (91,835,556)**	**$ (13,601,886)**
Shares issued on options exercised	1,148,151	6,720,562	(2,186,396)	-	4,534,166
Shares issued on non-standard options exercised	447,750	3,297,658	(1,112,000)	-	2,185,658
Shares issued under Employee Share Purchase Plan	148,061	694,289	-	-	694,289
Share-based compensation expense	-	-	1,897,005	-	1,897,005
Dividends paid	-	-	-	(9,257,215)	(9,257,215)
Net income and total comprehensive income	-	-	-	3,571,852	3,571,852
BALANCE, JUNE 30, 2014	**43,796,215**	**$ 52,403,258**	**$ 35,141,530**	**$ (97,520,919)**	**$ (9,976,131)**

See accompanying notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Cash Flows
Years ended June 30, 2014 and 2013
(Expressed in United States dollars)

	Notes	2014	2013
OPERATING ACTIVITIES			
Net income		**$ 3,571,852**	$ 1,738,452
Items not involving cash			
Amortization of property and equipment	(Note 6)	**1,418,328**	1,294,326
Amortization of acquired intangible assets	(Note 7(b))	**5,116,761**	5,755,100
Amortization of intangible assets – contract costs and brand	(Note 7(b))	**6,631,078**	6,022,219
Share-based compensation	(Note 12(g))	**1,897,005**	2,295,051
Deferred income taxes	(Note 13)	**539,000**	(491,826)
Loss on investments	(Note 4)	**-**	29,627
Unrealized foreign exchange gain		**-**	(277,892)
Non-cash interest and amortization of investment premium		**577,585**	274,233
Change in non-cash working capital			
Trade and other receivables		**(3,753,544)**	80,249
Prepaid expenses and other		**(204,677)**	297,177
Intangible assets – contract costs and brand additions		**(7,729,045)**	(6,574,406)
Trade and other payables		**1,140,079**	2,111,353
Accrued warranty		**(60,000)**	(170,000)
Deferred revenue		**6,326,174**	5,139,857
CASH FROM OPERATING ACTIVITIES		**15,470,596**	17,523,520
INVESTING ACTIVITIES			
Purchase of property and equipment		**(1,727,881)**	(948,322)
Acquisition of LiveTime	(Note 3)	**-**	(8,000,000)
Acquisition of Palisade	(Note 7(a))	**-**	(675,000)
Purchase of intangible assets		**(489,577)**	(25,000)
Acquisition payable		**-**	(833,333)
Proceeds from sales and maturities of short-term investments		**12,543,925**	23,489,727
Purchase of short-term investments		**(4,948,460)**	(24,609,984)
Purchase of investments		**(9,020,391)**	(6,190,335)
CASH USED IN INVESTING ACTIVITIES		**(3,642,384)**	(17,792,247)
FINANCING ACTIVITIES			
Dividends paid	(Note 12(f))	**(9,257,215)**	(4,118,643)
Issuance of common shares	(Note 12(b))	**7,529,898**	3,924,820
Repurchase of common shares for cancellation	(Note 12(b))	**-**	(13,504,414)
CASH USED IN FINANCING ACTIVITIES		**(1,727,317)**	(13,698,237)
FOREIGN EXCHANGE EFFECT ON CASH		**(287,354)**	(330,185)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**9,813,541**	(14,297,149)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		**31,114,998**	45,412,147
CASH AND CASH EQUIVALENTS, END OF YEAR		**$ 40,928,539**	$ 31,114,998

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14)

See accompanying notes to the Consolidated Financial Statements.

1. NATURE OF OPERATIONS

Absolute Software Corporation (the "Company") was incorporated under the Company Act (British Columbia) on November 24, 1993. The Company's principal business activities are the development, marketing, and support of firmware-persistent security and management solutions for endpoint computing devices such as computers, laptops, tablets and smartphones. The Company's solutions include remote data security, lifecycle management, enterprise mobility management and IT service management, powered by its proprietary and patented Computrace, Absolute Manage and Absolute Service software systems. The Company markets its solutions through computer original equipment manufacturers ("OEMs"), distributors, value added resellers, and directly to its customers, who include corporations, government entities, educational institutions, and consumers. While the Company's products are available internationally through resellers in Europe, Australia, South Africa, South America, and the Asia Pacific region, the majority of its sales are generated in North America. The Company's head office, principal address and registered office is Suite 1600, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1K8. The Company trades on the TSX under the symbol ABT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued and outstanding as of August 18, 2014, the date of approval by the Company's Board of Directors. These consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical cost as discussed below.

(b) Significant Accounting Policies

Principles of consolidation

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

- Absolute Software, Inc.
- Absolute Software EMEA Limited
- Absolute Technology GmbH
- Absolute Software (Asia) Pte. Ltd.
- Absolute Software Pty. Ltd.

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency transactions and translation

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

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

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

Financial Instruments

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

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

Instrument	Classification	Measurement Basis
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments – *interest-bearing securities (USD)*	Held to maturity	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost
Investments – *interest-bearing securities (USD)*	Held to maturity	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Acquisition payable	Other liabilities	Amortized cost

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

Cash and cash equivalents

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Short-term investments consist of highly liquid short-term interest bearing securities with maturities at the date of purchase of greater than three months, but less than one year, and of other marketable securities. Investments whose maturity dates are less than one year from the date of the statement of financial position are classified as short term.

Investments consist of highly liquid interest bearing securities with maturities at the date of purchase or the date of the statement of financial position of greater than one year.

Trade and other receivables

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

Property and equipment

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

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

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

Asset	
Computer equipment	3 years
Furniture and equipment	5 years
Computer software	1 to 3 years
Office equipment	3 years
Trade show equipment	2 years
Leasehold improvements	Term of the lease

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets

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

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

Research costs are charged to operations when they are incurred. Development costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; the technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. At June 30, 2014, the Company has not capitalized any development costs.

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

Asset	
Software – LANrev	5 years
Software – LiveTime	5 years
Software – Palisade	3 years
Contract costs	Average contract term
Customer relationships – LANrev	5 years
Customer relationships – LiveTime	5 years
Customer relationships – Palisade	3 years
Patents and other	Term of the patent or 4 years
Brand – LoJack royalties	Average contract term

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Accrued warranty

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

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

Income taxes

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

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Revenue recognition

The Company sells services and products including endpoint management, secure asset tracking, forensic investigation and device recovery. Revenue represents the fair value of consideration received or receivable from clients for services and products provided by the Company, net of discounts. Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the services and products have been delivered, and collectability is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue.

The Company's principal source of revenue results from sales contracts for the above services, with subscription terms ranging from one to five years. The full value of each Sales Contract is invoiced and receivable upon execution of the contract, delivery of the products and initiation of the services. Typically, sales contracts are comprised of multiple elements, as they include software licensing, asset monitoring, theft recovery, and maintenance and support services over the term. These elements are typically not separable for accounting purposes, and as a result, revenue from sales contracts is recognized ratably over the subscription term. Direct contract acquisition costs associated with sales contracts are deferred and amortized over the same period (see "Intangible Assets" above).

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

A portion of the Company's sales contracts are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered, the amount of the fee to be paid by the customer is fixed and determinable, and the collection of the related receivable is deemed probable from the outset of the arrangement.

Post-contract support, or maintenance, revenue associated with certain of the Company's products is recognized on a straight-line basis over the maintenance term, which is generally one year. Revenue not recognized in profit or loss under this policy is classified as deferred revenue in the statement of financial position when amounts have been billed in advance.

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

Deferred revenue is comprised of the remaining unamortized balance of sales contracts sold, and is generally recognized ratably over the remaining contract term.

Cost of Revenue

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

Sales and Marketing

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

Research and development

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

General and administration

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation plans

The Company has a stock option plan and an employee share purchase plan, which are described in Notes 12(c) and 12(e). When stock or stock options are issued to employees, the Company records the estimated fair value of each vesting tranche of the share-based awards as compensation expense over the related vesting period of each tranche with a corresponding credit to equity reserve. Forfeitures are estimated on the date of grant and are re-assessed each reporting period. Upon exercise of stock options or purchase of common shares, any consideration paid by employees, together with the amount previously recorded in equity reserve, is credited to share capital. Volatility assumptions used in Black-Scholes option pricing models are based on historical averages.

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

Income per share

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

(c) Significant accounting judgment

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

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Key sources of estimation uncertainty

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

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

- the fair value of intangible assets acquired pursuant to business combinations;
- the assessment of the carrying values of allowances for unrecoverable accounts receivable and assets;
- the inputs used in accounting for share-based compensation in the statement of operations; and
- the recognition and recoverability of the Company’s deferred tax assets.

(e) Adoption of Future Accounting Standards

Standards Adopted in 2014

The following new or amended standards were adopted in the year ended June 30, 2014:

IAS 1 – *“Presentation of Financial Statements”* (“IAS 1”)

Amendments to IAS 1 required that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified. These amendments did not have a significant impact on the Company’s disclosures in its consolidated financial statements.

IAS 19 – *“Employee Benefits”* (“IAS 19”)

Amendments to IAS 19 provided new requirements for the accounting for defined benefit pension plans. These amendments mandated the immediate recognition of actuarial gains and losses, and required the use of the same discount rate for the defined benefit obligation and expected asset return when calculating the interest component of pension expense. The adoption of IAS 19 did not affect the Company’s financial performance or its financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IAS 27 – "*Separate Financial Statements*" ("IAS 27")

IAS 27 prescribed the accounting and disclosure requirements for investments in subsidiaries, joint ventures, and associations when an entity prepares separate financial statements. The Company does not prepare separate financial statements.

IAS 28 – "*Investments in Associates and Joint Ventures*" ("IAS 28")

IAS 28 prescribed the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The adoption of IAS 28 did not affect the Company's financial performance or its financial position.

IFRS 7 – *"Financial Instruments: Disclosures"* ("IFRS 7")

Amendments to IFRS 7 introduced enhanced disclosure around any financial instruments which are offset in accordance with IAS 32. These amendments did not have a significant impact on the Company's disclosures in its consolidated financial statements.

IFRS 10 – "*Consolidation"* ("IFRS 10")

IFRS 10 required an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced SIC-12 "*Consolidation—Special Purpose Entities"* and parts of IAS 27, "*Consolidated and Separate Financial Statements"*. The adoption of IFRS 10 did not affect the Company's financial performance or its financial position.

IFRS 11 – "*Joint Arrangements"* ("IFRS 11")

IFRS 11 required a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31, "Interests in Joint Ventures", and SIC-13, "Jointly Controlled Entities—Non-monetary Contributions by Ventures". The adoption of IFRS 11 did not affect the Company's financial performance or its financial position.

IFRS 12 – "*Disclosure of Interests in Other Entities"* ("IFRS 12")

IFRS 12 established disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carried forward existing disclosures and also introduced significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of IFRS 12 did not affect the Company's financial performance or its financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 13 – "*Fair Value Measurement*" ("IFRS 13")

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarified that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also established disclosures about fair value measurement. The adoption of IFRS 13 did not affect the Company's financial performance or its financial position.

Future Accounting Standards

The IASB has issued the following amendments and new standards, which have not yet been adopted by the Company. Each of the amendments and new standards is effective for annual periods beginning on or after January 1, 2014, unless otherwise indicated, with early adoption permitted. 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.

IAS 32 – "*Financial Instruments: Presentation*" ("IAS 32")

Amendments to IAS 32 provide 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. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not currently believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

IAS 36 – *"Impairment of Assets"* ("IFRS 36")

Amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify 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 Company does not currently believe the amendments to IAS 36 will materially affect its financial performance or its financial position.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2017, with early adoption permitted. The Company has not yet assessed the the impact of the adoption of this standard on its financial performance or its financial condition.

(Expressed in United States dollars)

3. BUSINESS COMBINATION

On November 5, 2012, in order to expand its product portfolio, the Company entered into an agreement to acquire certain assets and operations of LiveTime Software, Inc. ("LiveTime") and affiliated companies, a software company specializing in information technology service management software. Subsequent to the acquisition, LiveTime's primary product was re-branded as Absolute Service, and is an on-premise or cloud-based solution that enables IT teams to provide more proactive, holistic service to their businesses. The transaction was accounted for as a business combination, with the Company being identified as the acquirer.

The aggregate purchase price of $8,000,000 was wholly comprised of cash. The direct costs of the acquisition, in the amount of $200,000, were expensed in the Company's Statement of Operations in the year ended June 30, 2013 within general and administration expense.

In addition to the purchase price, there is contingent consideration of up to $4,500,000 and 345,393 common shares, which is eligible to be paid to the selling shareholders of LiveTime contingent on the achievement of specified sales targets over a three year-period, post-acquisition, as well as continued employment of the key selling shareholder. As continued employment is required, this contingent consideration was not considered part of the purchase price. Estimates of the eventual amounts to be paid will be expensed in the Company's Statement of Operations over the applicable service period. Through June 30, 2014, none of the contingent consideration has been paid nor accrued.

The total purchase consideration was allocated to the fair values of the assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of the acquisition. The purchase consideration was allocated to the net assets acquired as follows:

Accounts receivable	$ 135,000
Property and equipment	40,000
Intangible assets	7,080,000
Goodwill	1,100,000
Accrued liabilities	(70,000)
Deferred revenue	(285,000)
	$ 8,000,000

Details of the acquired intangible assets, which were each determined to have a useful life of 5 years, were as follows:

Acquired software	$ 6,400,000
Customer relationships	680,000
	$ 7,080,000

(Expressed in United States dollars)

4. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	June 30, 2014	June 30, 2013
Investment grade securities	**$ 16,857,692**	$ 12,480,512
Term deposits	**679,800**	685,094
	$ 17,537,492	$ 13,165,606

At June 30, 2014 and 2013, the Company's long-term investments were comprised entirely of investment grade securities and are classified as held to maturity.

For the year ended June 30, 2013, the Company's loss on investments was comprised entirely of a realized loss on investment grade securities.

5. TRADE AND OTHER RECEIVABLES

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

	June 30, 2014	June 30, 2013
Trade receivables	**$ 21,868,734**	$ 18,402,900
Other receivables	**541,617**	195,263
Allowance for doubtful accounts	**(431,116)**	(401,208)
	$ 21,979,235	$ 18,196,955

At June 30, 2014, 9% of the Company's accounts receivable balance is over 90 days past due (June 30, 2013 – 7%). As at June 30, 2014, 20%, 19%, and 15% (June 30, 2013 - 21%, 20%, and 17%) of the receivable balances are owing from three OEM and reseller partners. At June 30, 2013, a fourth reseller partner comprised 15% of the balance.

(Expressed in United States dollars)

6. PROPERTY AND EQUIPMENT

	June 30, 2014		
	Cost	Accumulated Amortization	Carrying amount
Computer equipment	$ 6,461,647	$ 5,862,717	$ 598,930
Furniture and equipment	1,263,620	1,234,934	28,686
Computer software	3,594,396	2,719,128	875,268
Office equipment	2,127,859	1,762,025	365,834
Trade show equipment	122,932	122,932	-
Leasehold improvements	708,325	589,499	118,826
	$ 14,320,663	**$ 12,333,119**	**$ 1,987,544**

	June 30, 2013		
	Cost	Accumulated Amortization	Carrying amount
Computer equipment	$ 5,999,325	$ 5,271,172	$ 728,153
Furniture and equipment	1,235,393	1,202,529	32,864
Computer software	2,267,282	2,191,474	75,808
Office equipment	1,886,794	1,554,518	332,276
Trade show equipment	122,932	110,778	12,154
Leasehold improvements	655,429	542,435	112,994
	$ 12,167,155	**$ 10,872,906**	**$ 1,294,249**

(Expressed in United States dollars)

6. PROPERTY AND EQUIPMENT (continued)

The following table summarizes property and equipment activity for the year ended June 30, 2014:

	Year ended June 30, 2014			
	Carrying amount - opening	Additions	Amortization	Carrying amount – ending
Computer equipment	$ 728,153	$ 504,206	$ 633,429	$ 598,930
Furniture and equipment	32,864	28,227	32,405	28,686
Computer software	75,808	1,285,229	485,769	875,268
Office equipment	332,276	241,065	207,507	365,834
Trade show equipment	12,154	-	12,154	-
Leasehold improvements	112,994	52,896	47,064	118,826
	$ 1,294,249	**$ 2,111,623**	**$ 1,418,328**	**$ 1,987,544**

The following table summarizes property and equipment activity for the year ended June 30, 2013:

	Year ended June 30, 2013			
	Carrying amount – opening	Additions	Amortization	Carrying amount – ending
Computer equipment	$ 1,003,063	$ 338,309	$ 613,219	$ 728,153
Furniture and equipment	143,915	-	111,051	32,864
Computer software	105,223	207,966	237,381	75,808
Office equipment	231,904	343,061	242,689	332,276
Trade show equipment	-	34,575	22,421	12,154
Leasehold improvements	77,390	103,169	67,565	112,994
	$ 1,561,495	**$ 1,027,080**	**$ 1,294,326**	**$ 1,294,249**

7. INTANGIBLE ASSETS AND GOODWILL

(a) Acquisition of Palisade

On June 25, 2013, in order to expand its product portfolio, the Company entered into an agreement to acquire certain assets of Palisade Systems, Inc. ("Palisade"), a software company specializing in data loss prevention software, for $675,000 in cash. Palisade's solutions provided enterprise data security solutions for web monitoring and filtering, data monitoring, and data loss prevention, and the Company plans to incorporate this technology into its other products.

The total purchase consideration was allocated to the fair value of the intangible assets acquired, which consisted of acquired software and customer relationships, based on management's best estimates and taking into account all available information at the time of the acquisition.

Details of the acquired intangible assets are as follows:

Acquired software	$ 500,000
Customer relationships	175,000
	$ 675,000

These intangible assets were each determined to have a useful life of 3 years.

(Expressed in United States dollars)

7. INTANGIBLE ASSETS AND GOODWILL (continued)

(b) Intangible assets disclosures

	June 30, 2014		
	Cost	Accumulated Amortization	Carrying amount
Software – LANrev	$ 14,510,255	$ 13,324,203	$ 1,186,052
Software – LiveTime	6,400,000	2,125,740	4,274,260
Software – Palisade	500,000	183,333	316,667
Contract costs	20,387,937	10,078,446	10,309,491
Customer relationships – LANrev	465,538	425,270	40,268
Customer relationships – LiveTime	680,000	171,036	508,964
Customer relationships – Palisade	175,000	41,667	133,333
Software – FailSafe/Freeze	7,058,432	7,058,432	-
Patents and other	1,211,220	642,625	568,595
Brand rights – LoJack	796,047	698,095	97,952
Goodwill	1,100,000	-	1,100,000
	$ 53,284,429	**$ 34,748,847**	**$ 18,535,582**

	June 30, 2013		
	Cost	Accumulated Amortization	Carrying amount
Software – LANrev	$ 14,510,255	$ 10,459,902	$ 4,050,353
Software – LiveTime	6,400,000	761,250	5,638,750
Software – Palisade	500,000	-	500,000
Contract costs	18,579,977	9,380,764	9,199,213
Customer relationships – LANrev	465,538	328,625	136,913
Customer relationships – LiveTime	680,000	61,250	618,750
Customer relationships – Palisade	175,000	-	175,000
Software – FailSafe/Freeze	7,058,432	7,058,432	-
Patents and other	721,643	316,926	404,717
Brand rights – LoJack	830,858	720,595	110,263
Goodwill	1,100,000	-	1,100,000
	$ 51,021,703	**$ 29,087,744**	**$ 21,933,959**

(Expressed in United States dollars)

7. INTANGIBLE ASSETS AND GOODWILL (continued)

The following tables summarize intangible asset activity for the years ended June 30, 2014 and 2013:

	Year ended June 30, 2014			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Software – LANrev	$ 4,050,353	$ -	$ 2,864,301	$ 1,186,052
Software – LiveTime	5,638,750	-	1,364,490	4,274,260
Software – Palisade	500,000	-	183,333	316,667
Contract costs	9,199,213	7,634,244	6,523,966	10,309,491
Customer relationships – LANrev	136,913	-	96,645	40,268
Customer relationships – LiveTime	618,750	-	109,786	508,964
Customer relationships – Palisade	175,000	-	41,667	133,333
Patents and other	404,717	489,577	325,699	568,595
Brand rights – LoJack	110,263	94,801	107,112	97,952
Goodwill	1,100,000	-	-	1,100,000
	$ 21,933,959	**$ 8,218,622**	**$ 11,616,999**	**$ 18,535,582**

	Year ended June 30, 2013			
	Carrying amount - opening	Additions	Amortization	Carrying amount - ending
Software – LANrev	$ 6,914,654	$ -	$ 2,864,301	$ 4,050,353
Software – LiveTime	-	6,400,000	761,250	5,638,750
Software – Palisade	-	500,000	-	500,000
Contract costs	8,640,735	6,463,721	5,905,243	9,199,213
Customer relationships – LANrev	233,558	-	96,645	136,913
Customer relationships – LiveTime	-	680,000	61,250	618,750
Customer relationships – Palisade	-	175,000	-	175,000
Software – FailSafe/Freeze	1,770,098	-	1,770,098	-
Patents and other	581,273	25,000	201,556	404,717
Brand rights – LoJack	116,554	110,685	116,976	110,263
Goodwill	-	1,100,000	-	1,100,000
	$ 18,256,872	**$ 15,454,406**	**$ 11,777,319**	**$ 21,933,959**

(Expressed in United States dollars)

8. TRADE AND OTHER PAYABLES

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

	June 30, 2014	June 30, 2013
Trade payables	**$ 4,398,069**	$ 4,308,725
Payroll and employee benefits	**4,023,017**	3,397,969
Accrued liabilities	**1,628,548**	804,046
Sales taxes payable	**395,186**	382,414
Lease inducements	**10,690**	50,528
	$ 10,455,510	$ 8,943,682

9. ACCRUED WARRANTY

The following table summarizes changes in the accrued warranty for the years ended June 30, 2014 and 2013:

	Year ended June 30,	
	2014	2013
Balance, beginning of year	**$ 420,000**	$ 590,000
Warranty accrual	**1,212,101**	1,533,493
Guarantee payments	**(1,272,101)**	(1,703,493)
Balance, end of year	**$ 360,000**	$ 420,000

(Expressed in United States dollars)

10. DEFERRED REVENUE

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

	Year ended June 30,	
	2014	2013
Balance, beginning of year	**$ 130,636,556**	$ 125,211,698
Sales contracts	**97,273,493**	88,293,040
Revenue recognized	**(90,979,104)**	(83,178,357)
Acquired from LiveTime (Note 3)	**-**	285,000
Other adjustments	**31,785**	25,175
Balance, end of year	**136,962,730**	130,636,556
Less: current portion	**(71,144,393)**	(68,093,937)
	$ 65,818,337	$ 62,542,619

11. POST-RETIREMENT BENEFITS

During the year ended June 30, 2014, two senior officers of the Company tendered their resignations from the Company. Pursuant to the resignations, under the terms of two respective Separation Agreements, the Company incurred post-retirement benefits in the amount of $1,756,590 (CAD$1,932,430). This amount has been included in general and administration expenses.

12. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value
20,000,000 preferred shares, Series A, voting, convertible, redeemable, no par value

(b) Issued and outstanding

During the year ended June 30, 2014, the Company issued 1,148,151 common shares on exercise of employee stock options for total proceeds of $4,534,166. An amount of $2,186,396 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the year ended June 30, 2014, the Company issued 447,750 common shares on exercise of non-standard options for total proceeds of $2,185,658. An amount of $1,112,000 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

12. SHARE CAPITAL (continued)

During the year ended June 30, 2014, the Company issued 148,061 common shares pursuant to its employee share purchase plan for total proceeds of $694,289.

During the year ended June 30, 2013, the Company issued 796,636 common shares on exercise of employee stock options for total proceeds of $3,313,562. An amount of $1,503,315 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the year ended June 30, 2013, the Company issued 144,406 common shares pursuant to its employee share purchase plan for total proceeds of $612,121.

During the year ended June 30, 2013, the Company issued 166,668 common shares pursuant to a previous acquisition. The fair value of these common shares, measured at the date of the acquisition, was $827,434.

On January 23, 2013, the Company received approval from the TSX to commence a Normal Course Issuer Bid that enabled the Company to purchase and cancel up to 2,783,958 of its common shares. The Bid allowed for the purchase on a daily basis of up to 25,758 common shares until January 24, 2014, except where purchases were made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to January 23, 2013, the Company purchased and cancelled shares under previously approved Normal Course Issuer Bids (together, the “Bids”).

Under the Bids, in the year ended June 30, 2014, the Company did not repurchase any common shares (2013 - repurchased 2,812,900 common shares for a total cost of $13,505,255). On repurchase of the common shares, the difference between the purchase price and the average book value of the common shares was recorded in deficit, which amounted to $10,314,109.

(c) Stock Option Plan

The Company’s share-based compensation plans include an Employee Stock Option Plan (“Option Plan”).

In 2001, the Company’s Board of Directors adopted the Option Plan (as amended in 2007 and 2009), which provided for a maximum of 12% of the number of common shares outstanding to be allocated to Option Plan participants. On this basis, at June 30, 2014, the maximum number of common shares available under the Option Plan was 5,255,545 (June 30, 2013 - 5,046,270), of which 1,391,469 remained available for grant thereunder.

(Expressed in United States dollars)

12. SHARE CAPITAL (continued)

Terms and conditions of options granted under the Option Plan are determined solely by the Board of Directors. Under the Option Plan, the exercise price of each option equals the last closing market price of the Company's common shares before the grant date. The term of option grants may not exceed 10 years from the date of grant of the option. Generally, options are granted with a four year vesting period (25% vesting on each anniversary date), with each tranche expiring two years after each vesting date.

The following table summarizes activity under the Option Plan for the years ended June 30, 2014 and 2013:

	2014		2013	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of year	**4,486,366**	**$ 4.75**	4,399,389	$ 4.70
Granted	**889,700**	**6.90**	1,281,000	5.06
Exercised	**(1,148,151)**	**4.23**	(796,886)	4.24
Forfeited	**(251,075)**	**5.21**	(236,000)	4.84
Expired	**(112,764)**	**10.06**	(161,137)	8.18
Outstanding, end of year	**3,864,076**	**$ 5.22**	4,486,366	$ 4.75

The following table summarizes information about stock options issued and exercisable at June 30, 2014:

	Options Outstanding			**Options Exercisable**	
Range of exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
$2.95 - $4.25	764,425	1.5	$ 3.83	542,345	$ 3.83
$4.48 - $6.45	2,200,201	2.4	4.99	983,001	4.90
$6.89 - $7.12	894,200	4.1	6.92	9,750	7.12
$11.17	5,250	0.2	11.17	5,250	11.17
	3,864,076	**2.6**	**$ 5.22**	**1,540,576**	**$ 4.57**

(Expressed in United States dollars)

12. SHARE CAPITAL (continued)

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the year ended June 30, 2014 was $1,349,056 (2013 - $2,495,037). The weighted average grant date fair value of options granted during the year ended June 30, 2014 was $1.52 (2013 - $1.95).

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

	Year ended June 30,	
	2014	2013
Risk-free interest rate	**1.4%**	1.3%
Dividend yield	**3.4%**	0.1%
Expected life (in years)	**3.8**	3.8
Volatility	**40%**	50%

(d) Non-standard Options

On December 15, 2010, the Company's shareholders ratified the grant of an additional 500,000 stock options (the "Non-standard Options") outside of the Option Plan, pursuant to the employment agreements of the selling shareholders of a previously acquired company. The Non-standard Options were granted effective December 2, 2009, with an exercise price of $5.15, and vested in equal instalments over a three year period beginning on that date. Each tranche expires two years after each vesting date, subject to extension under the Company's trading blackout policies.

The total fair value of the Non-standard Options was $1,252,393, with a weighted average grant date fair value of $2.50. This fair value was measured at the date the employment agreements were entered into, as the terms and conditions of the grants were known at that time. The estimated fair value of the Non-standard Options was estimated using the Black-Scholes option pricing model assuming no dividend yield, an expected life of three years, volatility of 78%, and a risk-free interest rate of 0.5%.

At June 30, 2014, 500,000 Non-standard Options had vested and 52,250 remained outstanding. During the year ended June 30, 2014, 447,750 Non-standard Options were exercised for total proceeds of $2,185,658.

(Expressed in United States dollars)

12. SHARE CAPITAL (continued)

(e) Employee Share Purchase Plan

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

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of $10,500 per year to the purchase of common shares through two six month offering periods per year. During the year ended June 30, 2014, 148,061 common shares (2013 – 144,046 common shares) were issued from treasury under the Purchase Plan at a weighted average price of $4.69 (2013 - $4.25) per share.

At June 30, 2014, 632,625 common shares remained available for grant under the Purchase Plan.

(f) Dividends

In the year ended June 30, 2014, the Company declared four quarterly dividends on its common shares, amounting to $9,257,215 (2013 – two dividends amounting to $4,118,643). The dividends were paid in cash to shareholders of record at the close of business on August 7, 2013 (CAD$0.05 per share), November 7, 2013 (CAD$0.06 per share), February 7, 2014 (CAD$0.06 per share), and May 7, 2014 (CAD$0.06 per share).

(g) Share-based compensation

The Company's share-based compensation for the years ended June 30, 2014 and 2013 was comprised as follows:

	Year ended June 30,	
	2014	2013
Stock option plan	**$ 1,740,952**	$ 2,086,865
Non-standard Options	**-**	87,647
Employee share purchase plan	**156,053**	120,539
	$ 1,897,005	$ 2,295,051

(Expressed in United States dollars)

12. SHARE CAPITAL (continued)

The following table summarizes the allocation of share-based compensation for the years ended June 30, 2014 and 2013:

	Year ended June 30,	
	2014	2013
Cost of revenue	**$ 282,154**	$ 309,542
Sales and marketing	**709,855**	1,108,421
Research and development	**311,796**	341,964
General and administration	**593,200**	535,124
	$ 1,897,005	$ 2,295,051

(h) Diluted number of common shares outstanding

For the year ended June 30, 2014, the diluted weighted average number of common shares outstanding was 44,030,080 (2013 - 42,908,963). The dilutive securites were all related to outstanding employee stock options.

(Expressed in United States dollars)

13. INCOME TAXES

Income tax expense for the years ended June 30, 2014 and 2013 differ from that calculated by applying statutory rates for the following reasons:

	Year ended June 30,	
	2014	2013
Income before income taxes	**$ 6,222,652**	$ 2,542,669
Combined Federal and Provincial income tax rate	**26.00%**	25.25%
Tax expense at statutory rate	**1,617,890**	642,024
Permanent differences	**576,467**	596,147
Foreign income (losses) tax effected at higher rates	**280,703**	(568,310)
Impact on deferred income tax assets of changes in foreign exchange rates	**21,278**	61,687
Changes in statutory tax rates	**-**	(22,712)
Losses and temporary differences for which no deferred tax asset has been recognized	**4,897**	197,924
Previously recognized deferred tax assets de-recognized	**-**	-
Amounts under (over) provided for in prior years	**149,565**	(102,543)
Total income tax expense	**$ 2,650,800**	$ 804,217
Comprised of:		
Current income tax expense	**$ 1,385,900**	$ 1,296,043
Deferred income tax expense (recovery)	**1,264,900**	(491,826)
	$ 2,650,800	$ 804,217

For the year ended June 30, 2014, the Company recorded a net current income tax payable of $nil (2013 - $nil), comprised of a provision for income tax expense of $1.4 million (2013 - $1.3 million) offset by a $1.3 million recovery (2013 - $1.3 million) for Canadian Investment Tax Credits ("ITCs"). The ITCs were credited against research and development expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

(Expressed in United States dollars)

13. INCOME TAXES (continued)

In addition, the Company recorded an additional $0.6 million recovery of ITCs related to historical SRED claims upon their assessment by CRA during the year. Of this amount, $0.1 million (2013 - $0.1 million) was recorded as a reduction in current taxes payable and $0.5 million (2013 - $nil) was recorded as deferred tax assets.

The tax effect of the significant temporary differences and loss carryforwards that comprise deferred income tax assets and liabilities at June 30, 2014 and 2013 are as follows:

	June 30, 2014	June 30, 2013
Deferred income tax assets:		
Deferred revenue	**$ 19,568,831**	$ 19,505,201
Operating loss carryforwards	**34,436**	1,911,471
ITCs	**736,817**	-
Other	**640,673**	568,966
	20,980,757	21,985,638
Deferred income tax liabilities:		
Intangible assets	**(716,725)**	(1,416,871)
Investment tax credits	**(462,985)**	(228,720)
	(1,179,710)	(1,645,591)
	$ 19,801,047	$ 20,340,047

At June 30, 2014, the Company's deferred tax asset attributable to the Company's U.S. operations amounts to $20.0 million, with the balance relating to Canada. The Company's deferred tax liabilities are related to its Canadian operations. Accordingly, at June 30, 2014, the Company's net tax asset attibutable to the U.S. was $20.0 million (June 30, 2013 - $21.7 million), with a net liability of $0.2 million (June 30, 2013 –$1.4 million) relating to Canada.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carryforward periods. Management considers the scheduled reversal of deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred tax asset considered realizable could change materially in the near term based on future taxable income during the carryforward period. The Company has estimated operating tax loss carryforwards of $13,297,321 which carry forward indefinitely and have not been recognized as deferred tax assets. In addition, the Company has $2,138,071 in capital loss carryforwards which do not have an expiry date, and which are not recognized as tax assets.

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

(Expressed in United States dollars)

14. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	June 30, 2014	June 30, 2013
Cash	**$ 24,126,010**	$ 14,978,640
Cash equivalents	**16,802,529**	16,136,358
	$ 40,928,539	$ 31,114,998

Other cash flow information

	Year ended June 30,	
	2014	2013
Non-cash investing and financing activities		
Accrued purchases of property and equipment	**$ 170,438**	$ 38,758
Common shares issued for Acquisition Payable	**-**	827,434

15. CAPITAL RISK MANAGEMENT

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

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Overview

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed have not changed from the year ended June 30, 2013.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(b) Market risk

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

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

Foreign Currency Sensitivity Analysis

The Company typically does not enter foreign currency hedges. 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 $365,000 in annual operating income and a $375,000 decrease in net income. The Company's sensitivity to a 1% strengthening of the U.K. pound against the U.S. dollar is an approximate decrease of $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.

16. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(c) Liquidity Risk

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

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

(*d) Credit Risk*

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

The Company manages credit risk related to accounts receivable by carrying out credit investigations for new customers and partners, and by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. Accounts receivable are net of allowance for doubtful accounts of $431,000 (June 30, 2013 - $401,000).

At June 30, 2014, 9% of the Company's accounts receivable balance is over 90 days past due (June 30, 2013 – 7%). As at June 30, 2014, 20%, 19%, and 15% (June 30, 2013 - 21%, 20%, and 17%) of the receivable balances are owing from three OEM and reseller partners. At June 30, 2013, a fourth reseller partner comprised 15% of the balance.

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.

(e) Fair Values of Financial Instruments

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

(Expressed in United States dollars)

17. SEGMENTED INFORMATION

The Company carries on business in the computer security monitoring and endpoint management industry and all sales are made in this segment. Geographic revenue information is based on the location of the customer invoiced. Long-lived assets include property and equipment and intangible assets.

	Year ended June 30,	
	2014	2013
Revenue		
United States	**$ 77,337,033**	$ 71,135,934
Rest of world	**10,880,272**	8,574,951
Canada	**2,761,799**	3,467,472
	$ 90,979,104	$ 83,178,357

	June 30, 2014	June 30, 2013
Long-lived assets		
Canada	**$ 11,962,137**	$ 15,551,303
United States and rest of world	**8,560,989**	7,676,906
	$ 20,523,126	$ 23,228,209

18. COMMITMENTS

The Company's minimum payments required under operating leases for premises, equipment and business service agreements, and a branding agreement are as follows as at June 30, 2014:

2015	$ 2,284,436
2016	1,841,191
2017	1,635,635
2018	1,640,704
2019 and thereafter	544,168
	$ 7,946,134

(Expressed in United States dollars)

19. RELATED PARTY TRANSACTIONS

Key management personnel compensation

	Year ended June 30,	
	2014	2013
Salaries, bonus, and short-term employment benefits	**$ 2,727,651**	$ 2,205,263
Post retirement benefits	**1,808,597**	-
Share-based compensation	**490,193**	1,108,108
	$ 5,026,441	$ 3,313,371

In 2014, 12 individuals (2013 – 11 individuals) were included in key management personnel.

20. CONTINGENCIES

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

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

21. SUBSEQUENT EVENTS

(a) Stock options and Performance stock units

The employment of the Company's new Chief Executive Officer commenced on July 1, 2014. As a component of the CEO's compensation package, the Company committed to issue 500,000 stock options pursuant to the Option Plan, as well as 250,000 performance stock units. The performance stock units, and any associated agreements related thereto, are subject to approval by the Company's Board of Directors.

(b) Purchase plan

On July 15, 2014, 70,480 common shares were issued pursuant to the Purchase Plan.

(c) Quarterly dividend

On July 28, 2014, the Company declared a quarterly dividend of CAD$0.06 per share on its common shares, payable in cash on August 28, 2014 to shareholders of record at the close of business on August 7, 2014.