



## Management's Discussion and Analysis

# First Quarter Report

# 2007

**Dated October 31, 2006.** 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 2006 annual filings, in particular, the Management's Discussion and Analysis, and the 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).

Certain statements in this MD&A constitute forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement of Absolute's services and products, and other expectations, intentions and plans contained in this analysis that are not historical fact. When used in this MD&A, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties, readers should understand that Absolute Software cannot offer assurance that the forward-looking statements contained in this analysis will be realized.

Note: all dollar figures reported herein are in Canadian dollars unless otherwise stated.

## Strategic Update of Absolute Software Corporation (TSX: ABT) (“Absolute” or “Company”)

Absolute Software’s (“Absolute” or the “Company”) mission is to establish its Computer Theft Recovery (“Anti-Theft”), Data Protection and Secure Asset Tracking™ solutions as a new security standard for computers and other connected devices.

During fiscal 2006, Absolute achieved significant operational milestones toward this mission. At the same time, market factors such as increased regulatory pressure and media scrutiny are forcing IT administrators and compliance officers to focus on data and computer protection, which is driving demand for Absolute’s products. There are now more than 30 U.S. states that have enacted notification laws requiring organizations to report where third party data may have been compromised, such as through the loss or theft of a laptop. These laws have had embarrassing and costly consequences for numerous organizations and the number of incidents is steadily climbing. According to the Privacy Rights Clearinghouse, more than 93 million data records of U.S. residents have been exposed due to security breaches since February 2005, a significant amount of which have been caused by lost or stolen computers.

As a result of its operational achievements and these market factors, momentum has been building for Absolute’s business. In fiscal 2006, this translated into a 70% increase in sales contracts (see Business Model section for definition of this metric) and a 214% increase in cash from operations. This momentum has continued into the first quarter of fiscal 2007 as the Company reached new milestones including:

- Posting record quarterly performance with sales contracts of \$11.1 million and cash from operations of \$4.7 million, up 116% and 383% respectively from the same quarter last year
- Selling 191,000 new and renewal subscriptions in the quarter, bringing the subscriber total to approximately 810,000 at September 30, 2006
- Launching its first laptop bundle program whereby a two year subscription to Computrace® LoJack® for Laptops was prepaid by Gateway and automatically included with the purchase of each computer
- Announcing BIOS support in Gateway desktop computers – the first OEM to begin providing desktop BIOS support
- Releasing a Mac version of Computrace LoJack for Laptops
- Being named as a runner-up in the software category of the Wall Street Journal Technology Innovation Awards for Computrace Data Protection

Two years ago, management set a goal to build Absolute’s paid subscriber base to one million by June 30, 2007, as a significant milestone in its industry standard mission. With approximately 810,000 subscriptions under contract at September 30, 2006, management believes the Company is well positioned to exceed this goal. In pursuit of this objective, the Company has focused on four key operational strategies, which are summarized below.

### Embedding Computrace in the Firmware

Absolute’s Computrace software agent is now embedded in the BIOS of laptop computers from five of the world’s largest PC OEMs: Dell, Fujitsu, Gateway, HP and Lenovo. During the first quarter of fiscal 2007, Absolute announced Gateway as the first PC OEM to begin shipping Computrace embedded in the BIOS of certain of their desktop computers in response to demand from their customer base. Shortly thereafter, Dell also began embedding Computrace in the BIOS of certain desktop computers.

From a technology perspective Absolute’s software is integrated at the chip-level of the computer, making the software extremely difficult for unauthorized users to defeat, thereby enhancing the effectiveness of its computer theft protection and computer tracking products. When built-in to the BIOS, Computrace is shipped “turned off” (in a non-active state) on every laptop. Absolute and the OEM generate revenue when customers subscribe to the Company’s services and turn on, or activate, the Computrace software in the BIOS.

Absolute continues to encourage its embedded partners to extend BIOS support across all professional and consumer laptop and desktop models. Absolute is also encouraging other PC OEMs to embed Computrace, with a goal of having all first and second tier laptop brands enabled with Computrace BIOS support.

## OEM Sales and Marketing

Absolute's distribution model is focused on generating sales through OEM partners. The Company has well established sales and marketing relationships with Dell, HP, Lenovo, Gateway and Toshiba, and is developing similar relationships with others. Management believes access to these channels is a competitive advantage for the Company, especially when combined with the embedded BIOS support. Today, Absolute plays the primary role in creating demand for its solutions, but management is working with OEM partners to leverage their sales channels by launching collaborative marketing programs that highlight Computrace as a key component of a comprehensive data and computer security strategy.

For the three months ended September 30, 2006, Absolute generated sales contracts of \$8.9 million (or 80% of total sales) through its OEM channels, an increase of 121% over the prior year. Dell continues to be Absolute's largest channel partner and has begun showing increased growth following implementation of embedded BIOS support in December of 2005. For the first quarter of fiscal 2007, Dell generated sales of \$5.7 million (or 51% of total sales), an increase of 176% from the prior year. In addition, sales through Gateway, Lenovo and HP have increased following the launch of the embedded strategy during calendar 2006. Combined, these partners generated sales contracts of \$3.0 million (or 27% of total sales) in Q1-F2007, up 124% from the prior year period.

## Intellectual Property and Patent Protection

Absolute invented the computer theft recovery software category in 1994. All of Absolute's software solutions are powered by its proprietary and patented Computrace technology. Management believes that certain features of this technology create a unique competitive advantage for delivering solutions for IT security and management. The technology is designed to provide customers with a persistent and reliable communication platform over which multiple security and management services can be delivered with certainty and without end-user interruption. These features are becoming increasingly important due to the emerging focus of corporations, educators and government agencies on regulatory compliance and data protection. Absolute will continue to invest to expand Computrace's features and solution set, as well as exploring extension of its proprietary platform to other connected devices.

In addition, Absolute has 13 issued and two pending patents covering the Computrace technology and the Company is investing resources to protect and extend this patent portfolio. Over the past eighteen months, Absolute commenced proceedings against ten competitors. Seven of these cases were resolved, resulting in competitors ceasing sale of the infringing products, acquiring licenses to Absolute's patent portfolio, or becoming resellers of Absolute's technology. Absolute is currently in litigation with two of the remaining competitors. While management believes that Absolute will ultimately prevail in these cases, the outcome, time to resolution and impact on Absolute's business and patent portfolio, if any, is currently un-determinable. Absolute's business may suffer if it cannot continue to enforce its intellectual property rights, or if third parties successfully assert that Absolute violates their intellectual property rights.

## Target Markets

Absolute has traditionally targeted its marketing strategies in the education, corporate and consumer market verticals in North America. In the first quarter of fiscal 2007, Absolute expanded its target market to include the U.S. government as a fourth vertical and has also begun to explore opportunities in the European market. Absolute hired its first government sales specialist in September 2006 and has launched government marketing programs with certain OEM partners. In the U.K., an office and a team of three sales and support staff were added during the quarter to spearhead Absolute's expansion in Europe.

There are numerous factors that have created increased demand for Absolute's solutions in each of the four target market verticals. In particular:

- The U.S. education market continues to expand its broad initiative to provide students with laptops to assist in their learning. For many education customers, Absolute has provided the tracking and security solutions required to enable educators to manage and maintain these programs.
- Corporations and government organizations have begun to take measures to ensure they are compliant with new data privacy standards and regulations in order to mitigate the potential consequences of data breaches that can occur when a computer is lost or stolen.
- With the rise in awareness of identity theft, the consumer market is also becoming more concerned with protection of computers and data. In addition, the consumer segment has responded well to Absolute's "Computrace LoJack for Laptops" brand name, as "LoJack" is a well established U.S. brand name synonymous with theft recovery. Absolute is also pursuing bundle and free trial opportunities with its distribution partners in order to accelerate attach rates. The first of these programs was announced in August 2006, where for a limited time, two years of Computrace LoJack for Laptops was included with certain Gateway laptops sold through Wal-Mart. Management believes these types of opportunities will be a key driver for achieving mass adoption in the consumer market.

As illustrated in the following table, Absolute's strategic focus and the general market trends toward security have led to accelerated sales growth in each of its target verticals.

Sales Contracts by Market Vertical (In millions of dollars, except percent figures)	% of Q1- F2007 Sales	% Increase over Q1- F2006	<b>Q1-F2007</b>	Q1-F2006
Education	34%	51%	<b>\$ 3.73</b>	\$ 2.48
Corporate	43%	205%	<b>4.88</b>	1.60
Government	4%	71%	<b>0.44</b>	0.25
Consumer	19%	151%	<b>2.08</b>	0.83
Total sales contracts	100%	116%	<b>\$ 11.13</b>	\$ 5.16

Of particular note is the corporate vertical, which was the fastest growing segment in the first quarter of fiscal 2007 as a result of sales and marketing efforts to capitalize on corporate spending on security solutions to comply with privacy regulations. Both the education and consumer verticals also posted strong growth as expected during the back-to-school season. This concentration of education related sales in the summer months has resulted in a degree of seasonality in sales contract performance. While this is expected to continue roughly at historical levels during fiscal 2007, over the long-term further sales acceleration in the corporate, consumer and government verticals are expected to help offset the seasonality derived from the education market.

## Business Model

Absolute focuses on sales contracts and cash from operations as its key performance metrics. Management believes these metrics provide for the most meaningful evaluation of the business, while revenue and operating income, or loss, provide a lagging indication of performance. This is because a majority of sales are deferred on the balance sheet while most of the related costs are expensed in the period. To illustrate, Absolute generated sales contracts growth of 116% (130% growth in U.S. dollars) in Q1-F2007 which in turn generated a 383% increase in cash from operations. Conversely, revenue only increased 54% in Q1-F2007 and the net loss actually increased 43%.

Management believes that an understanding of Absolute's business model is essential to explain the ongoing disconnect between cash flow and profitability, and for proper evaluation of Absolute's performance. Sales contracts and basic cash per share are not standardized measures prescribed under Canadian generally accepted accounting principles ("GAAP"). Sales contracts are invoiced, prepaid and non-refundable sales that are included in the GAAP measure of deferred revenue (see the Notes to the Consolidated Financial Statements).

Absolute sells its computer theft recovery (ComputraceComplete, ComputracePlus, and Computrace LoJack for Laptops), data protection (Computrace Data Protection) and secure asset tracking (AbsoluteTrack) solutions primarily in a prepaid and non-refundable subscription-for-services model. Subscription sales contracts are available with service terms of one to five years, with the non-refundable payment due in full on standard invoice terms upon signing. While the entire cash value of the sales contract is due at the beginning of the contract, the revenue from the contract is recorded as deferred revenue on the balance sheet and amortized to income ratably over the contract term, starting in the month following the invoice date. Accordingly, Absolute is building an annuity stream both in terms of revenue and in cash flow from sales contracts. The revenue annuity results from the sale of multi-year contract terms with known monthly revenue streams, while the cash flow annuity results from the annual computer purchase cycles of organizational customers.

An appreciation for Absolute's business model also requires an understanding of the costs associated with sales contracts, as a majority of the costs are incurred at the beginning of the sales contract term. A portion of these costs, including commissions and warranty accruals, are capitalized as deferred contract costs, which are then charged to income pro-rata with the sales contracts to which they relate. Still, a majority of expenses in any given fiscal year relate to sales contracts included in deferred revenue as opposed to the revenue recognized for the year. These include up-front sales contract costs, such as research and development, patent enforcement, marketing and selling, training, delivery and customer support. During the remaining contract term, on-going cash costs associated with the contracts are in general considerably less than the initial costs. These costs include maintenance of the monitoring center and reporting website, upgrades to the Computrace software, customer support and recovery services.

Since revenue from sales contracts is deferred and a majority of the associated costs are expensed as incurred, revenue and gross margin will lag behind sales contracts and operating cash flow. This explains the continuing disconnect between the cash generated from operations and the net loss reported in the statement of operations. As a result, management relies upon sales contracts and operating cash flow as the leading indicators of performance and profitability.

## Outlook

Management believes that it has the resources and strategies in place to achieve its mission to establish Computrace as the industry standard for computer theft protection and to exceed its goal of one million paid subscribers under contract by June 30, 2007. For fiscal 2007, Absolute will focus on adding more OEMs with embedded firmware support, launching new programs to leverage its OEM distribution channels and increasing adoption rates within its target market verticals. In addition to Absolute's efforts, management expects data privacy legislation and the associated notification requirements to continue driving media coverage of data exposed from lost or stolen laptops, and to continue accelerating demand for Absolute's products.

In order to capitalize on the emerging market opportunities and to scale its business to support its growth, Absolute will continue to increase its investment in key areas of the business during fiscal 2007. At the same time, management is committed to achieving an increase in cash generated from operations, the Company's leading indicator for profitability. However, as a majority of the increased sales contracts are deferred on the balance sheet, this investment will result in the Company continuing to operate at a net loss until the annuity revenue stream begins to reach the sales contract run-rate and the Company reaches a size where cost economies per subscription sold can be realized.

## Selected Quarterly Information (in millions, except percent and per share data)

	Q1-F2007	Q1-F2006
Sales Contracts	\$ 11.13	\$ 5.16
% (decrease) increase	116%	60%
Revenue	3.98	2.58
% increase	54%	38%
Net loss after income taxes	(1.32)	(0.92)
Basic and Diluted loss per share	(0.06)	(0.04)
Cash from operations	4.65	0.96
Total assets	40.08	24.64
Warranty accrual	4.26	1.59
Deferred revenue	34.18	18.91
Long-term debt	-	-
Cash dividends declared per share	-	-

## Revenue and Sales Contracts

For the quarter ended September 30, 2006, revenue increased 54% to \$4.0 million compared to \$2.6 million in Q1-F2006, and increased 18% sequentially from \$3.4 million in Q4-F2006. Revenue is determined by sales contracts, and since the average contract life is approximately 30 months, a majority of the revenue is determined by sales contracts completed during the three prior years. In general, only 16% to 20% of new and renewal sales contracts in any given fiscal year are actually included in revenue for the year, with the remainder included in deferred revenue on the balance sheet.

Sales contracts for Q1-F2007 increased 116% to \$11.1 million from \$5.2 million in Q1-F2006, and increased 33% sequentially from \$8.4 million in Q4-F2006. The increases are the result of the four key strategies discussed in the introduction to this MD&A. The underlying growth is actually understated due to the decline in the value of the U.S. dollar relative to the Canadian dollar, as over 90% of sales contracts are generated in U.S. dollars. In U.S. dollar terms Q1-F2007 sales contracts increased 130% to US\$9.9 million from US\$4.3 million in Q1-F2006, and increased 33% from US\$7.5 million in Q4-F2006.

Sales contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts. Accordingly, the retail price paid for Absolute's solutions is higher than the amount reported by Absolute as sales contracts. Despite a continued devaluation in the U.S. dollar, the average selling price per unit increased compared to the prior year as a result of an increased proportion of the higher priced theft recovery solutions being sold and an increase in the average term. Management attributes this change to the improved persistence from being embedded in the BIOS, and U.S. privacy regulations that have led to increased awareness of the need to protect the data on laptops from loss and theft. Unit and average selling information is detailed in the following table:

	<b>Q1-F2007</b>	Q4-F2006	Q1-F2006
Total subscriptions sales in units	<b>190,887</b>	154,217	96,225
Theft recovery sales as a percent of total unit sales	<b>90%</b>	85%	88%
Average selling price	<b>\$ 58.31</b>	\$ 54.32	\$ 53.26
Average contract term	<b>33 months</b>	33 months	28 months

## Operating Expenses – Total Operating Expenses (dollar and subscription figures in millions)

	Q1-F2007	Q1-F2006
Cost of goods sold ("COS")	\$ 1.35	\$ 0.78
Sales and marketing ("S&M")	2.27	1.50
Research and development ("R&D")	0.60	0.42
General and administration ("G&A")	1.12	0.74
Stock-based compensation	0.17	0.09
Total operating expenses	\$ 5.52	\$ 3.53
% increase (decrease)	57%	34%
% of sales contracts	50%	68%
Number of employees at year end	113	85
Subscriptions under contract	0.81	0.51

Total operating expenses have increased 57% over last year as the employee base and sales and marketing efforts have been expanded to effectively execute on Absolute's strategic plan. As a percentage of sales contracts, current operating expenses have decreased to 50% from 68% last year, which management believes is indicative of the leverage in the business model. One of management's objectives is to invest in the business to scale operations and accelerate growth to a critical mass level, and to do so at an increasing rate of leverage by reducing total costs as a percent of sales contracts.

Consistent with the 116% increase in sales contract growth and the resulting 54% increase in revenue, COS has increased over the prior period. COS includes costs related directly to monitoring and theft recovery revenue, as well as cost related to on-boarding new customers for which revenue has yet to be recognized. Direct-variable and semi-variable costs include the monitoring center, technical support, theft recovery and Absolute's theft guarantee. On-boarding costs included in COS but related to period sales contracts include packaging and branding costs for the consumer business, and customer and technical support for training and software delivery.

S&M expenditure increases reflect expansion of the sales team to support OEM and vertical programs, and increased marketing expenditures within each of Absolute's target market verticals. In addition, the average sales compensation per employee has increased due to changes in market rates and improved sales performance. Management believes S&M expenditures have the most opportunity for efficiency gains, and strategies are being implemented to achieve increased leverage.

R&D expenditures have increased in support of OEM BIOS partners and new product and feature development, and to address the needs of a growing subscriber base. Resources will be added in coming quarters as the company looks to expand its international markets and develop other solutions that leverage its core technology. In Q1-F2007, the main focus of the R&D team has been to ensure compatibility with Microsoft's new Vista operating system, increase scalability of the technology, feature enhancement and re-design of an enterprise software version of Absolute's solutions.

G&A expenses have increased over last year primarily due to an increase in legal expenses associated with enforcing the patent portfolio. Management expects patent litigation expenses to continue increasing during fiscal 2007 as the Company continues to litigate against two of its competitors, and may need to challenge other potential infringers. G&A expenses have also increased to support the sales contract growth, and as a result of graduation to the TSX from the TSX Venture Exchange in December 2005.

## Other Income (Expense)

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are invested in treasury bills, bankers' acceptances and investment grade bonds. Interest income increased to \$163,000 in the quarter ended September 30, 2006, from \$68,000 in the same quarter last year as a result of increased cash balances and interest rates.

Absolute reports foreign exchange gains and losses primarily on the translation of U.S. dollar cash and receivable balances. U.S. denominated assets normally exceed liabilities as over 90% of sales are denominated in U.S. dollars, compared to approximately 50% of costs. This generally results in foreign exchange losses in periods where the U.S. dollar declines relative to the Canadian dollar. In the first quarter of fiscal 2007, the U.S. dollar began to stabilize relative to the Canadian dollar which resulted in a reduction in foreign exchange losses to \$6,000 from \$199,000 last year. Absolute has not entered into hedging arrangements as management believes the cost would outweigh the benefit. However, changes in the value of the U.S. dollar relative to the Canadian dollar will impact the rate of sales contract growth in future periods.

## Net Loss

The Company's net loss after income taxes for the quarter ended September 30, 2006, was \$1.3 million, a 43% increase from \$922,000 for Q1-F2006. The increased loss in Q1-F2007 is primarily due to a 57% increase in total operating expenses during the period, while a majority of the 116% in sales contract growth is recorded as deferred revenue on the balance sheet.

Since inception, Absolute has invested in establishing the market for Computer Theft Recovery and Secure Asset Tracking, building an effective distribution channel, and evolving its product offering. While this investment has resulted in sales contract growth sufficient to generate an increasing level of positive cash from operations, the deferral of sales contracts over the contract term has resulted in increasing GAAP losses from operations. The Company's primary strategy is to grow sales contracts and cash flow to capitalize on its market opportunity. Management expects that consistently operating at a cash positive level will translate to income statement profitability as revenue begins to reflect increasing sales contract levels and cost economies are realized. With sales contracts increasing 116% in Q1-F2007 and 60% in Q1-F2006, the model is producing cash positive operations and is favorably widening the gap between the net loss and cash generated from operations. The following table highlights the impact of revenue deferral, and illustrates the importance of sales contracts and cash flow as key performance metrics:

(In millions)	Q1-F2007	Q1-F2006
Sales contracts	<b>\$ 11.13</b>	\$ 5.16
Revenue	<b>\$ 3.98</b>	\$ 2.58
Cash from (used in) operations	<b>\$ 4.65</b>	\$ 0.96
Net loss after taxes	<b>(\$ 1.32)</b>	(\$ 0.92)

## Cash From (Used in) Operations

Q1-F2007 was Absolute's ninth consecutive quarter of generating positive cash from operations as a result of sales contract growth in excess of 50% in each of the last eight quarters. Cash from operations for Q1-F2007 totaled \$4.7 million, up 383% from \$1.0 million in Q1-F2006. First quarter cash from operations was actually higher than the \$4.2 million reported for fiscal 2006 as a whole. The increased cash flow is primarily due to a strong receivables balance at the end of Q4-F2006, combined with cash collected on an unusually high portion of first quarter sales due to the summer purchasing cycles of education customers. Looking ahead, second quarter cash from operations is expected to be considerably lower than first quarter as the timing of second quarter sales tends to be toward the end of the quarter.

## Liquidity and Capital Resources

### Cash Position

Absolute is in a strong financial position, with the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At September 30, 2006, Absolute's cash, cash equivalents and short-term investments increased on positive operating cash flows to \$21.5 million, compared to \$16.7 million at June 30, 2006.

### Accounts receivable

Accounts receivable balances increased to \$6.9 million at September 30, 2006, from \$6.2 million at June 30, 2006 and \$4.0 million at September 30, 2005. The increases are primarily due to greater sales contract activity. Sales contracts tend to be concentrated toward the end of each quarter, and as a result, receivable balances tend to average between 75% and 85% of sales contracts for the quarter. As a result of an unusually large portion of sales completing early in Q1-2007, receivable balances at September 30, 2006 improved to 62% of Q1-F2007 sales contracts, compared to 74% at June 30, 2006 and to 77% at September 30, 2005.

### Deferred Contract Costs

Certain direct contract costs are capitalized as deferred contract costs on the balance sheet and are charged to income over the term of the contract to which they relate. Direct contract costs capitalized include commissions, prepaid service fees, and estimated warranty costs over the life of each contract.

At September 30, 2006, deferred contract costs of \$7.2 million (21% of deferred revenue) are up from \$5.8 million (22% of deferred revenue) at June 30, 2006, and \$3.9 million (20% of deferred revenue) at September 30, 2005. The decrease to 21% in Q1-2007 from 22% in Q4-2006 reflects a reduction in the overall sales commission rate.

### Accrued Warranty

Absolute offers a recovery guarantee, or warranty, with certain of its products whereby customers are eligible for up to a \$1,000 guarantee payout if the customer follows the terms and conditions, and Absolute is unable to recover the stolen computer within a specified timeframe. For each sales contract that includes the guarantee, Absolute records warranty provision for full value of estimated guarantee payments under the program. Warranty costs for each sales contract are estimated at between 15% and 20% of the sales contract value based on Absolute's experience across its subscriber base. The corresponding expense is recorded as deferred contract costs and charged to cost of sales over the term of each contract. Guarantee payments, insurance premiums and insurance proceeds are included in the accrued warranty as incurred or received.

Accrued warranty increased to \$4.3 million (12% of deferred revenue) at September 30, 2006, from \$2.9 million (11% of deferred revenue) at June 30, 2006, and \$1.6 million (8% of deferred revenue) at September 30, 2005. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. Experience to date suggests that a change in the accrual rate is not required.

In July 2006, Absolute terminated its third-party warranty insurance program effective May 31, 2006, as based on performance it was determined to be an unnecessary expense. As a result, the warranty accrual as a percent of deferred revenue has effectively increased for the insurer's portion of the warranty liability. Under the termination agreement, the insurer is to refund US\$240,000 of prepaid insurance premiums, of which US\$120,000 was received in Q1-2007 and US\$60,000 is to be paid in Q2 and Q3-2007. The refunds are credited to warranty accrual as received.

## Deferred Revenue

Deferred revenue represents sales contracts invoiced for which the non-refundable payment is received or due to be paid in full, but for which the revenue is not yet recognizable under GAAP. Refer to Note 6 of the Notes to the Interim Consolidated Financial Statements for Q1-F2007 for a reconciliation of deferred revenue to sales contracts and revenue.

Deferred revenue grew to \$34.2 million at September 30, 2006, on Q1-F2007 sales contracts of \$11.1 million. Future sales contracts will continue to increase this balance and will have a corresponding effect on revenue in future periods. Deferred revenue provides a high degree of visibility for future period revenues, with the current portion showing the amount that will be included in revenue over the next twelve months.

## Accounting Changes

No accounting changes were adopted during Q1-F2007 and fiscal 2006.

## Quarterly Operating Data

(In millions except per share data)	Q1-07	Q4-06	Q3-06	Q2-06	Q1-06	Q4-05	Q3-05	Q2-05	Q1-05
Sales contracts	\$ 11.13	\$ 8.38	\$ 4.70	\$ 4.24	\$ 5.16	\$ 5.03	\$ 2.70	\$ 2.27	\$ 3.22
Revenue	3.98	3.36	2.99	2.76	2.58	2.34	2.21	2.15	1.87
Operating expenses	5.52	4.83	4.25	3.84	3.53	3.12	2.81	2.39	2.63
Net (loss)	(1.32)	(1.29)	(1.02)	(0.71)	(0.92)	(0.54)	(0.51)	(0.47)	(1.00)
Basic and diluted (loss) per share	(0.06)	(0.06)	(0.05)	(0.03)	(0.04)	(0.03)	(0.03)	(0.03)	(0.06)
Cash from operations	4.65	1.26	0.82	1.16	0.96	0.31	0.21	0.24	0.56

## Shareholder's Equity and Outstanding Share Data

At September 30, 2006, Absolute had shareholder's equity of \$281,000. In evaluating the shareholder's deficiency, management believes it is important to consider the \$34.2 million of deferred revenue carried on the balance sheet. This represents prepaid and non-refundable revenue, which management expects to generate high margin revenue when recognized as much of the associated contract costs are already included in the operating deficit.

The Company's common shares trade on the TSX (TSX:ABT), and at September 30, 2006, the Company had 22,279,126 (22,303,626 at October 31, 2006) fully issued and outstanding common shares.

The following common share stock options and warrants are issued and outstanding:

- **Employee Stock Options:** At September 30, 2006, a total of 2,361,000 (2,360,750 at October 31, 2006) common stock options are granted and outstanding under the Company's Employee Share Option Plan. The options have a weighted average strike price of \$1.75 per share, and a weighted average term to expiry of 2.8 years. During Q1-F2007, a total of 141,500 stock options were granted to employees at an average strike price of \$4.41, none of which were issued to insiders.
- **Employee Share Purchase Plan:** In fiscal 2006, the Company obtained shareholder approval for an Employee Share Purchase Plan whereby employees may purchase treasury shares at a 15% discount from market during a six month offering period. A total of one million shares have been reserved for grant under the plan. In July 2006, the first offering period was completed and 49,603 treasury shares were issued to employees at a price of \$2.55 per share.
- **Branding Agreement Warrants:** The Company issued 500,000 warrants in fiscal 2006 to acquire rights to the "LoJack" brand name, all of which remain outstanding. The warrants have an exercise price of \$2.00 per share, vest 20% per year starting June 30, 2006, and expire the earlier of two years after vesting, June 30, 2010, or upon termination of the agreement.

## Critical Accounting Policies and Estimates

Management considers the Company's accounting for sales contracts, deferred contract costs, warranty accruals and future tax assets to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Sales contracts and deferred contract costs represent sales receipts and expenses that are generated or incurred at the start of each sales contract. These items are capitalized on the balance sheet as deferred revenue or deferred contract costs, and are recognized as revenue or expense ratably over the contract term.

Warranty accruals require management estimates of the amount of warranty claims that will be paid over the life of each sales contract. The value of the accrued warranty estimate is capitalized with deferred contract costs and charged to cost of sales ratably over the contract term. Accrual estimates are established based on Absolute's experience with loss and recovery rates, and are reviewed for reasonableness based on actual experience on a regular basis.

The Company has recognized a portion of its future tax assets on the balance sheet. Each reporting period, management assesses the likelihood of realizing future 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 balance sheet. The net income or loss after income taxes can vary widely in periods where tax assets are recognized.

## Contractual Commitments

The Company does not have minimum purchase commitments and does not have significant contractual commitments beyond its leased premises, LoJack branding agreement and fulfillment of services under its sales contracts. The Company leases 11,574 square feet of office space in Vancouver, Canada, which expires on December 31, 2010. The Company has contractual commitments to perform computer theft recovery and automated monitoring services under its prepaid sales contracts, as detailed in the following table.

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012 to 2015	Total
Sales Contract Revenue Earned	\$12,128,953	\$12,210,135	\$7,300,628	\$2,060,334	\$388,766	\$95,901	\$ 34,184,717

## Off Balance Sheet Arrangements

The Company has not entered into any off balance sheet arrangements.

## Related Party Transactions

The Company does not generally enter into related party transactions.

## Subsequent Events

Up to the date of this report, October 31, 2006, there have not been any significant subsequent events or transactions that would require disclosure in, or adjustment to, the consolidated financial statements as at September 30, 2006.

## Disclosure Controls and Internal Controls over Financial Reporting

The Company has established and maintains disclosure controls and procedures and internal controls over financial reporting. The certifying officers have evaluated the effectiveness of the issuer's disclosure controls and procedures as of June 30, 2006, and have concluded that such controls and procedures are adequate and effective to ensure accurate and complete disclosures in annual and interim filings. To the date of this interim MD&A, there have not been any changes that materially affect, or are likely to affect, the issuer's internal controls over financial reporting.

## Financial Statements

The interim consolidated financial statements included herein dated September 30, 2006 have not been reviewed by the Company's external auditors, nor have the external auditors been involved in the preparation of these interim financial statements.

## 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.

**Microsoft Operating Systems** – Absolute has designed the majority of its services to operate on certain generations of Microsoft Windows operating systems. The development by Microsoft of new versions of Windows or other operating systems, the market adoption of these or other operating systems developed by other vendors may have an adverse effect on Absolute's business if it is not able to adapt its technology to be compatible with these new operating systems.

**Dependence on Distribution Channels** – Absolute generates a substantial portion of its revenue through PC OEM channels and its sales strategy is built upon Absolute's ability to continue to maintain its BIOS position with these partners and grow its reseller channels. If unable to access end customers through its reseller channels, Absolute will have to change its sales strategy and may not be able to grow at the rates anticipated.

**Operating Environment** – The Computrace software that enables this product operates in a potentially hostile environment. In addition, Absolute's services rely upon connection to Absolute's 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 its software agent will call in, it may affect Absolute's ability to sell the theft recovery portion of the products offered to customers.

**Product Errors** – The software technology enabling Absolute's software services is complex and 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 and liability claims.

**Competition** – It is also possible that new competitors will enter the marketplace. Several potential competitors are marketing or have announced the development of computer products in direct competition with Absolute. In addition, as Absolute develops new services, the Company may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their 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, and devote greater resources to the marketing and sale of their services and products than Absolute. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations.

**Intellectual Property Rights** – Absolute's revenue, cost of sales, and expenses may suffer if it 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 Computrace technology platform. However, any of the 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 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 or pay costly damage awards, or face a temporary or permanent injunction prohibiting the marketing or selling certain of our products.

**Emerging Markets 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 markets 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 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.

**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 the loss of the services of Absolute's key employees could have a material adverse effect on Absolute's business, operating results and financial condition.

**Foreign Exchange** –The Company's reporting and functional currency is the Canadian dollar. However, over 90% of the Company's sales, compared to approximately 50% of costs, are denominated in U.S. dollars. As a result, the Company is exposed to fluctuations in the Canadian and U.S. dollar exchange rate for which it does not enter into foreign exchange hedges. Should the Canadian dollar continue to appreciate relative to the U.S. dollar, then it could impede Absolute's ability to meet its Canadian dollar sales contract growth targets and to achieve cash positive operations.

## Financial Statements

The interim consolidated financial statements included herein dated September 30, 2006 have not been reviewed by the Company's external auditors, nor have the external auditors been involved in the preparation of these interim financial statements. These statements should be read in conjunction with the Company's 2006 Annual Report, and first quarter 2007 Management Discussion and Analysis.

## ABSOLUTE SOFTWARE CORPORATION

### Consolidated Balance Sheets (Unaudited)

(Expressed in Canadian dollars)

	As At	
	September 30, 2006	June 30, 2006
<b>ASSETS</b>		
<b>CURRENT</b>		
Cash and cash equivalents	\$ 8,900,863	\$ 3,981,681
Short-term investments	12,590,639	12,705,454
Accounts receivable	6,944,022	6,175,169
Prepaid expenses and deposits	339,306	338,969
Current portion of deferred contract costs (Note 2)	3,427,349	2,686,334
Current portion of future income tax assets (Note 3)	1,477,516	1,358,888
	33,679,695	27,246,495
DEFERRED CONTRACT COSTS (Note 2)	3,739,318	3,153,159
PROPERTY AND EQUIPMENT	801,197	715,346
FUTURE INCOME TAX ASSETS (Note 3)	1,377,145	1,415,080
INTANGIBLE ASSET (Note 4)	479,155	511,098
	\$ 40,076,510	\$ 33,041,178
<b>LIABILITIES</b>		
<b>CURRENT</b>		
Accounts payable and accrued liabilities	\$ 1,352,554	\$ 2,025,391
Current portion of accrued warranty (Note 5)	2,242,502	1,368,174
Current portion of deferred revenue (Note 6)	15,553,842	12,676,472
	19,148,898	16,070,037
ACCRUED WARRANTY (Note 5)	2,016,081	1,552,521
DEFERRED REVENUE (Note 6)	18,630,875	14,321,172
	39,795,854	31,943,730
<b>SHAREHOLDERS' EQUITY</b>		
Share capital and other equity (Note 7 (a))	37,127,470	36,792,277
Contributed surplus (Note 7 (b))	8,069,390	7,899,061
Loans to directors and employees	(649,934)	(644,220)
Deficit	(44,266,270)	(42,949,670)
	280,656	1,097,448
	\$ 40,076,510	\$ 33,041,178

APPROVED ON BEHALF OF THE BOARD:



**John Livingston**  
Director



**Ian Reid**  
Director

## ABSOLUTE SOFTWARE CORPORATION

### Consolidated Statements of Operations and Deficit (Unaudited)

Three months ended September 30, 2006 and 2005

(Expressed in Canadian dollars)

	2006	2005
<b>REVENUE</b>		
Monitoring revenue	\$ 3,944,752	\$ 2,471,873
Installation services, licensing fees and other revenues	30,462	106,572
	3,975,214	2,578,445
<b>COST OF GOODS SOLD</b>		
Monitoring, support and recovery	1,105,383	538,722
Technical support and product maintenance	248,886	241,814
	1,354,269	780,536
<b>GROSS MARGIN</b>	2,620,945	1,797,909
<b>EXPENSES</b>		
Sales and marketing	2,274,315	1,492,169
Research and development	604,562	421,896
General and administration	1,120,968	744,774
Stock-based compensation	170,329	86,744
	4,170,174	2,745,583
<b>OPERATING LOSS</b>	(1,549,229)	(947,674)
<b>OTHER INCOME (EXPENSE)</b>		
Interest and other income	162,848	67,908
Interest and bank charges	(10,308)	(5,968)
Foreign exchange gain (loss)	(6,318)	(199,336)
	146,222	(137,396)
<b>LOSS FOR PERIOD BEFORE INCOME TAXES</b>	(1,403,007)	(1,085,070)
<b>FUTURE INCOME TAX RECOVERY (Note 3)</b>	80,693	162,761
<b>NET LOSS FOR THE PERIOD</b>	(1,322,314)	(922,309)
<b>DEFICIT, BEGINNING OF PERIOD</b>	(42,949,670)	(39,022,768)
<b>INTEREST AND EXCHANGE ON LOANS TO DIRECTORS AND EMPLOYEES</b>	5,714	(752)
<b>DEFICIT, END OF PERIOD</b>	\$ (44,266,270)	\$ (39,945,829)
<b>BASIC AND DILUTED LOSS PER SHARE</b>	\$ (0.06)	\$ (0.04)
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	22,141,141	21,034,199

See accompanying Notes to the Interim Consolidated Financial Statements.

## ABSOLUTE SOFTWARE CORPORATION

### Consolidated Statements of Cash Flows (Unaudited)

Three months ended September 30, 2006 and 2005

(Expressed in Canadian dollars)

	2006	2005
<b>OPERATING ACTIVITIES</b>		
Net loss for the period	\$ (1,322,314)	\$ (922,309)
Items not involving cash		
Amortization of property and equipment	95,688	91,624
Stock-based compensation	170,329	86,744
Amortization of intangible asset	31,943	31,944
Future income taxes	(80,693)	(162,761)
Change in non-cash operating working capital		
Accounts receivable	(768,853)	19,776
Prepaid expenses and deposits	(337)	(43,166)
Deferred contract costs	(1,327,174)	(676,823)
Accounts payable and accrued liabilities	(672,837)	(365,746)
Accrued warranty	1,337,888	338,283
Deferred revenue	7,187,073	2,564,773
<b>CASH FROM OPERATING ACTIVITIES</b>	<b>4,650,713</b>	<b>962,339</b>
<b>INVESTING ACTIVITIES</b>		
Property and equipment purchased	(181,539)	(59,725)
Short-term investments (acquisition) disposal, net	114,815	(8,864,604)
<b>CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<b>(66,724)</b>	<b>(8,924,329)</b>
<b>FINANCING ACTIVITIES</b>		
Common shares issued on exercises of options and warrants	335,193	129,116
<b>CASH FROM FINANCING ACTIVITIES</b>	<b>335,193</b>	<b>129,116</b>
<b>NET CASH INFLOW (OUTFLOW)</b>	<b>4,919,182</b>	<b>(7,832,874)</b>
<b>CASH AND CASH EQUIVALENTS,</b>		
<b>BEGINNING OF PERIOD</b>	<b>3,981,681</b>	<b>11,778,412</b>
<b>CASH AND CASH EQUIVALENTS,</b>		
<b>END OF PERIOD</b>	<b>\$ 8,900,863</b>	<b>\$ 3,945,538</b>
<b>COMPOSITION OF CASH AND CASH EQUIVALENTS:</b>		
Cash	\$ 5,543,334	\$ 3,346,282
Cash equivalents	3,357,529	599,256
	<b>\$ 8,900,863</b>	<b>\$ 3,945,538</b>
<b>SUPPLEMENTAL NON-CASH INVESTING AND FINANCING INFORMATION:</b>		
Intangible asset acquired	\$ -	\$ (638,873)
Warrants issued under branding agreement	\$ -	\$ 638,873

See accompanying Notes to the Interim Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements (Unaudited)

Three months ended September 30, 2006 and 2005 (Expressed in Canadian dollars)

## 1. SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited interim consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at and for the three months ended September 30, 2006 have been included. Interim results for the three months ended September 30, 2006 and 2005 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

These interim consolidated financial statements include the accounts of Absolute Software Corporation and its wholly owned subsidiaries, Absolute Software Inc. (U.S.), Computer Recovery Inc. (U.S.), Absolute Software EMEA Limited (U.K.)(formerly UK Beachhead Limited), and 609713 BC Ltd. All intercompany balances and transactions have been eliminated. These interim financial statements follow the same accounting policies and methods of application as the most recent audited financial statements, and should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company's 2006 Annual Report for the year ended June 30, 2006.

## 2. DEFERRED CONTRACT COSTS

	As at	
	September 30, 2006	June 30, 2006
Prepaid sales commissions	\$ 3,061,780	\$ 2,629,915
Accrued warranty and prepaid insurance costs	3,866,458	3,025,923
Other prepaid / accrued contract costs	238,429	183,655
Balance at the end of the period	7,166,667	5,839,493
Less: Current portion	(3,427,349)	(2,686,334)
Long term portion	\$ 3,739,318	\$ 3,153,159

## 3. FUTURE INCOME TAX ASSETS

At June 30, 2006 Absolute reported total future tax assets of \$13.0 million, of which \$2.8 million had been valued and recorded on the Company's balance sheet. The future tax assets relate to, among other things, timing differences relating to deferred revenue balances and tax losses carry forward balances. Based on actual performance for the three months ended September 30, 2006, management determined that the value of tax assets that are more likely than not to be realized has increased to \$2.9 million. The increase of \$80,693 represents previously unrecognized tax assets.

## 4. INTANGIBLE ASSET

In the three months ended September 30, 2005, the Company acquired an intangible asset relating to common share purchase warrants issued for acquisition of a consumer product brand-name. The intangible asset is amortized to cost of sales on a straight line basis over a five year period, which matches the life of the warrants granted for acquisition of the brand name.

Under the branding agreement with LoJack® Corporation, Absolute retained the worldwide rights to brand its consumer offering "Computrace LoJack for Laptops" for a 10 year period ending June 30, 2015. In addition to an annual and per unit royalty, Absolute issued 500,000 common share purchase warrants to LoJack. The fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.25%, dividend yield of 0%, expected life of five years, and volatility of 77%.

## 5. ACCRUED WARRANTY AND GUARANTEE

	As at	
	September 30, 2006	June 30, 2006
Balance at the beginning of the period	\$ 2,920,695	\$ 1,254,063
Warranty accrual on new sales contracts	* 1,293,113	2,762,372
Warranty claims paid	* (182,338)	(612,245)
Insurance premiums paid, net of insurance proceeds	* 227,113	(483,495)
Balance at the end of the period	4,258,583	2,920,695
Less: Current portion	(2,242,502)	(1,368,174)
Long term portion	\$ 2,016,081	\$ 1,552,521

\* For 3 months ended September 30, 2006 and 12 months ended June 30, 2006.

**6. DEFERRED REVENUE**

	As at	
	September 30, 2006	June 30, 2006
Balance at the beginning of the period	\$ 26,997,644	\$ 16,342,000
Add: Sales contracts during the period	* 11,130,759	22,480,070
Less: Revenue recognized during the period	* (3,975,214)	(11,691,240)
Less: Other adjustments	* 31,528	(133,186)
Balance at the end of the period	<u>34,184,717</u>	26,997,644
Less: Current portion	<u>(15,553,842)</u>	(12,676,472)
Long term portion	<u>\$ 18,630,875</u>	<u>\$ 14,321,172</u>

\* For 3 months ended September 30, 2006 and 12 months ended June 30, 2006.

**7. SHAREHOLDERS' EQUITY***(a) Issued*

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2006	21,992,680	556,343	\$ 36,792,277
Shares issued on options exercised (c)	180,500	-	129,825
Shares issued under Employee Share Purchase Plan	49,603	-	126,488
Shares issued on broker warrants exercised	56,343	(56,343)	78,880
Balance September 30, 2006	<u>22,279,126</u>	<u>500,000</u>	<u>\$ 37,127,470</u>

*(b) Contributed surplus*

	As at	
	September 30, 2006	June 30, 2006
Contributed surplus, beginning of period	\$ 7,899,061	\$ 6,784,681
Stock-based compensation expense recorded on option and purchase plans	* 170,329	475,507
Intangible asset recorded on granting of Warrants	*	638,873
Contributed surplus, end of period	<u>\$ 8,069,390</u>	<u>\$ 7,899,061</u>

\* For 3 months ended September 30, 2006 and 12 months ended June 30, 2006.

*(c) Stock options*

The 2001 Employee Share Option Plan provides that a maximum of 4,065,206 common shares may be allocated to participants. After adjusting for options exercised under the Plan, there are a total of 2,598,581 available to be allocated to participants under the Plan, all but 237,581 of which have been granted. At September 30, 2006, the total share options outstanding were:

Share options outstanding, beginning of period	2,463,250
Exercised during the period	(180,500)
Forfeited during the period	(63,250)
Granted during the period	141,500
Outstanding, end of period	<u>2,361,000</u>
Weighted average exercise price	\$ 1.75
Weighted average term remaining	2.8 years
Number of options exercisable at September 30, 2006	817,364
Weighted average price of exercisable options	<u>\$ 0.83</u>

**7. SHAREHOLDERS' EQUITY (Continued)***d) Pro forma fair value stock-based compensation expense*

The Company has adopted the amended recommendations of the CICA Handbook Section 3870 prospectively from July 1, 2003. Accordingly, the Company only recognized compensation expense for stock options granted to employees and directors commencing July 1, 2003. Had the Company determined compensation expense for options granted to employees and directors since adoption of the new stock-based compensation standard on July 1, 2002 based on the fair value method of accounting for stock-based compensation, the Company's pro forma loss and loss per share for the three months ended September 30, 2006 and 2005 would have been as follows:

	<b>Three Months Ended</b>	
	<b>September 30,</b>	
	<u>2006</u>	<u>2005</u>
Loss for the period	\$ (1,322,314)	\$ (922,309)
Add: stock-based compensation included in operations for the period	170,329	86,744
Less: stock-based compensation determined for all awards from the original effective date of July 1, 2002	(178,967)	(100,378)
<b>Pro forma loss for the period</b>	<b>\$ (1,330,952)</b>	<b>\$ (935,943)</b>
<b>Pro forma basic and diluted loss per share</b>	<b>\$ (0.06)</b>	<b>\$ (0.04)</b>

**8. SEGMENTED INFORMATION**

The Company carries on business in the computer security monitoring industry and all sales are made in this segment. Its activities are carried out in the United States, Canada, United Kingdom and through resellers in Australia and South Africa. For the three months ended September 30, 2006, total revenues in the United States were \$3,709,176 (2005 - \$2,333,572) and in Canada and internationally were \$266,038 (2005 - \$244,873). A majority of the Company's long-lived assets are located in Canada. The only material U.S. denominated assets at September 30, 2006 include cash balances of U.S. \$4,517,462.32 (2005 - U.S. \$2,828,443.10) and accounts receivable balances of U.S. \$5,903,056 (2005 - U.S. \$3,025,595).

## BOARD OF DIRECTORS

### John Livingston

Chairman, Chief Executive Officer  
Absolute Software Corporation  
Vancouver, BC

### Christian Cotichini\*

Vancouver, BC

### Terry Libin\*\*

Calgary, AB

### Ian Reid\*\*\*

Vancouver, BC

## CORPORATE INFORMATION

### Auditors

Deloitte & Touche LLP  
Vancouver, BC

### Trust Agent

CIBC Mellon Trust  
www.cibcmellon.com  
Toronto, ON

### Legal Counsel

Lang Michener  
Vancouver, BC

### Common Shares

Absolute Software common shares are traded on the Toronto Stock Exchange (TSX) under the trading symbol ABT.

## OFFICERS AND SENIOR MANAGEMENT

### John Livingston

Chairman, Chief Executive Officer

### Phil Gardner

Chief Technology Officer

### Rob Chase

Chief Financial Officer

### Rich Cohen

Vice President, Sales

### Ben Haidri

Vice President, Marketing and Business Development

### Don Hughes

Area Vice President, Channel Sales

### Gareth Mason

Vice President, Service Delivery

### Trevor Wiebe

General Counsel & Assistant Corporate Secretary

## ADDITIONAL INFORMATION

### Rob Chase – Chief Financial Officer

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### Dave Mason – The Equicom Group

(416) 815-0700 ext 237  
dmason@equicomgroup.com

## Corporate Office

### Absolute Software Corporation

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Fax: (604) 730-2621  
info@absolute.com

## U.S. Headquarters

### Absolute Software Inc.

Suite 400, 10655 NE 4th Street  
Bellevue, WA, USA 98004

## International Headquarters

### Absolute Software EMEA Limited

8 Lincolns Inn Fields  
London, UK  
WC2A 3BP

## Absolute<sup>®</sup>Software

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\* Chairman of Compensation Committee

\*\* Chairman of Strategic Planning Committee

\*\*\* Chairman of Audit Committee