



Management's Discussion and Analysis

Second Quarter Report 2008

Dated February 7, 2008. The following Management Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2007 Consolidated Financial Statements and accompanying notes and MD&A. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at www.absolute.com and 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, worldwide legislative trends, rates of addition of new subscription contracts, adoption rates by users of certain brands of computer products, future adoption of firmware support by OEMs currently not doing so, the launch of bundling programs, the expansion of international markets, accelerated demand for products, plans and timing for the introduction or enhancement of 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 Corporation cannot offer assurance that the forward-looking statements contained in this analysis will be realized.

Selected Quarterly Information

(in millions, except percent and per share data***)

	Q2 Fiscal 2008	Q2 Fiscal 2007	YTD Fiscal 2008	YTD Fiscal 2007
Sales Contracts reported*	\$ 15.0	\$ 9.3	\$ 36.0	\$ 20.4
% increase	61%	120%	76%	117%
Sales Contracts in constant currency**	\$ 17.4	\$ 9.3	\$ 39.9	\$ 20.4
% increase	86%	125%	95%	127%
Cash From Operations*	\$ 9.1	\$ 4.3	\$ 18.0	\$ 9.0
% increase	111%	273%	101%	323%
Per Share (basic)* ***	\$ 0.19	\$ 0.10	\$ 0.39	\$ 0.20
Revenue	\$ 8.9	\$ 4.6	\$ 16.5	\$ 8.5
% increase	94%	65%	94%	60%
Operating loss before stock-based compensation	(\$ 0.6)	(\$ 1.5)	(\$ 1.9)	(\$ 2.9)
% decrease (increase)	58%	(56%)	35%	(58%)
Net loss after income taxes	(\$ 1.9)	(\$ 1.0)	(\$ 4.7)	(\$ 2.3)
Per share ***	(\$ 0.04)	(\$ 0.02)	(\$ 0.10)	(\$ 0.05)
Total assets			\$ 83.3	\$ 45.6
Cash, cash equivalents and short-term investments			\$ 52.9	\$ 25.5
Deferred Revenue			\$ 73.7	\$ 39.0
Long-term debt			\$ -	\$ -

* Throughout this document we refer to "Sales Contracts" (invoiced sales added to deferred revenue) as a revenue measure, Cash from Operations and "Cash Margins" (Cash from Operations divided by Sales Contracts) as profitability measures, and "Cash from Operations per Share (Basic)" (Cash from Operations divided by the average shares outstanding for the period) as an earnings per share measure. With the exception of Cash from Operations, these are non-standard measures under Generally Accepted Accounting Principals ("GAAP"). We consider these measures to be our key performance metrics as substantially all sales in each period are deferred on the balance sheet, while the related costs are expensed in the period. Refer to the Business Model section below for more details.

** Sales Contracts in constant currency refers to the Canadian dollar sales that would have been reported had the U.S. dollar exchange rate been unchanged from the rate in the prior year periods. With approximately 95% of Sales Contracts are in U.S. dollars management believes this to be a more meaningful evaluation of the underlying performance of the business. The average U.S. dollar exchange rate on our sales fell from \$1.1204 in Q1-F2007 and \$1.1428 in Q2-F2007, to \$1.0409 in Q1-F2008 and \$0.9875 in Q2-F2008.

*** On December 14, 2007, shareholders approved a two-for-one share split for its common shares effective as of the close of business on January 4, 2008. All share and per share information included in this MD&A has been adjusted to reflect this share split for all periods presented.

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

All dollar figures are stated in Canadian dollars unless otherwise stated.

Business Overview

Laptop computers are now outselling desktops and all market sectors are grappling with the data security and management challenges associated with mobility. This continuing trend aligns with our value proposition in providing our customers and partners with comfort that “We Secure Mobility” with simplicity and certainty. Our stated mission is to enable customer adoption of mobile computing through deeply embedded industry standard solutions for data and physical computer security and management.

We have developed a proprietary and patented technology to deliver embedded solutions for computer Theft Recovery (“Anti-Theft”), Data Protection (remote data deletion), and Secure Asset Tracking™, which are sold under our Absolute®, Computrace® and LoJack® for Laptops branding. At the same time we have created an embedded technology platform that can power other value added solutions to meet our customers’ security and management needs.

Our Computrace and LoJack for Laptops solutions are delivered primarily in a Software-as-a-Service (“SaaS”) business model through Absolute’s scalable and secure Monitoring Center in order to ensure consistent quality of service and rapid response to security breaches. The result is a scalable business model with highly visible recurring sales.

One of the unique components of Absolute’s product suite is our managed theft recovery services. Our theft recovery team, with more than 600 years of collective law enforcement experience, utilizes our Computrace platform to conduct investigations and recover our customers’ lost and stolen computers. We have recovered more than 5,000 computers for our customers, and are currently recovering an average of 60-70 per week. In the process we have solved a variety of criminal activities and have enabled a reduction in overall theft and loss rates for our customers.

Our development team continues to leverage the strength of our technology platform to extend the features and value proposition for Absolute’s offerings, and to support international expansion strategies. One of their key initiatives is a wireless broadband strategy to enhance our current products and enable our solutions for handheld devices. We are expecting to have product announcements in this area during calendar 2008. These would include both enhancing our current computer offerings with real time broadband capability, and extending our solutions to Windows Mobile based handsets.

Performance Overview – Q2 Fiscal 2008

In the first half of fiscal 2008, we continued to move the business forward in-line with our expectations and strategic plan. As a result, we are tracking ahead of our stated subscriber target and Cash Margin guidance and are increasing our targets as follows:

- Subscriber base target – increased this objective to six million, from four million, subscribers by June 30, 2009.
- Cash Margin guidance for fiscal 2008 – increased to 35-40% from 30-35% of Sales Contracts.

Operational highlights for the first six-months of fiscal 2008 include:

- Grew Sales Contracts 76% (95% in U.S. dollars) to \$36.0 million for the year to date, and 61% (86% in U.S. dollars) to \$15.0 million for the quarter.
- Generated Cash from Operations of \$18.0 million for the first half of fiscal 2008, up 101% over last year, and \$9.1 million for the quarter, up 111%.
- Achieved Cash Margins for the year to date of 50% compared to 44% in the same period last year.
- Improved the operating leverage in the business with total operating costs excluding stock-based compensation decreasing to 51% of year-to-date Sales Contracts compared to 56% last year.
- Reduced the operating loss excluding stock-based compensation by 35% to \$1.9 million for the year to date, and by 58% to \$0.6 million for the quarter.
- Grew Deferred Revenue to \$73.7 million, up 89% from Q2 last year.
- Ended the quarter with cash and short-term investments of \$52.9 million, up 107% from Q2 last year.

Customer Base

On December 31, 2007 our subscriber base stood at 2.5 million, up 169% from 940,000 at December 31, 2006. Additional gross subscriptions in the quarter were 515,589, up 216% from 163,367 in Q2-F2007, with U.S. customers accounting for approximately 92% of new subscriptions. On an annualized basis, this represents an adoption rate approaching 7% of estimated calendar 2007 laptop shipments in the U.S., more than double our estimated adoption rates of 3% in calendar 2007.

Management believes that the increased subscriber base is driven in part by market trends toward securing mobility and in part by our direct sales, referenceable customer base and PC OEM marketing initiatives.

Our subscriber base is spread across a broad range of customers with organizations (corporate, education, government, etc.) representing approximately 72% of our year to date Sales Contracts, and home office and individual consumers representing the remaining 28%.

As a result, we do not have a concentration of sales to any single customer. However, in January 2007 we announced a consumer bundling program with one of our PC OEM partners which represented approximately 19% of our year-to-date Sales Contracts. While this is effectively a concentration of sales through this PC OEM partner, it is the end-user consumer who uses and benefits from the service. Accordingly, the effect of this concentration is expected to be mitigated through direct renewal and new product sales opportunities with these consumers.

The consumer bundle with this PC OEM partner, now in the second year of the two year agreement, is expected to continue at current sales levels over the next 12 months. Based on the success of this program, we are now working toward additional bundle programs for both the consumer and commercial verticals, and have seen increased interest from PC OEM and other partners for these programs.

Embedded Support

Embedded firmware support for Absolute's Computrace Agent is built into the BIOS of laptops shipped worldwide by Dell, HP, Lenovo, Gateway (recently acquired by Acer, with its non-consumer businesses sold to MPC), Toshiba, Fujitsu, Panasonic, Motion Computing and Itronix. We estimate that 35 million laptops shipped with embedded BIOS support for Computrace in calendar 2007, bringing the total install base of laptops with embedded support to 70 million. In addition, embedded BIOS support for Computrace is also provided with certain desktop lines from Dell, HP, Lenovo and Gateway.

We believe that this embedded support is a significant endorsement of our technology by our PC OEM partners. This unique arrangement resulted from a combination of strong client references attesting to the quality of our services and years of collaboration with the PC OEMs. The ease of adoption, efficiency and effectiveness of our solutions is optimized for laptop and desktop computers through this embedded support. Currently, Absolute's Computrace security and management solutions are the only BIOS-embedded solutions on the market, which provides us with a unique competitive advantage.

Partner Ecosystem

Absolute has focused primarily on generating sales through its PC OEM distribution channel. Over 80% of our sales are distributed through the PC OEMs that provide embedded BIOS support (Dell, HP, Lenovo, Gateway (now through Acer and MPC), Toshiba, Fujitsu, Panasonic, Motion Computing and Itronix), as well as others who do not (such as Apple, Acer and Sony).

We continue to focus on our PC OEM partners as we can better support our mutual customers by working together. However, in efforts to maximize adoption, we have begun to expand our partner ecosystem to include other retailers, value added resellers, system integrators and other industry-leading technology manufactures for computer and hand-held devices.

Patent Portfolio

In addition to our customer base, embedded support and partner ecosystem, we also rely on a portfolio of 14 patents to maintain our competitive advantage. We are continuing to build on this portfolio and currently have an additional 16 patent applications in process.

We began licensing and litigating to protect our patent portfolio in calendar 2005 in order to protect our intellectual property and support our competitive position. Several competitors have since taken licenses to our patent portfolio, and are paying license fees to Absolute for this right, while others have opted to exit the business.

By virtue of its patent portfolio Absolute has been the initiating party with respect to assertions and claims of patent infringement. In one case initiated by Absolute, *Absolute Software, Inc. v. Stealth Signal, Inc.* (USDC Southern District of Texas – Case No. H-05-1416), as a result of a counterclaim in that suit, Absolute is also defendant to a patent infringement claim. *Stealth Signal, Inc.* (“Stealth”), in an attempt to defend against Absolute’s action, obtained a license to a third-party patent and has asserted a counterclaim alleging that Absolute is infringing this third-party patent. Management and its expert advisors believe strongly that the counterclaim is without merit, and accordingly no provision or contingency has been recorded in the financial statements. The parties had a claim construction hearing in early June, 2007, and the parties are awaiting the Court’s ruling regarding claim construction of the asserted patents. According to SEC documents filed in August 2007, *Phoenix Technologies Inc.* (“Phoenix”) purchased certain intellectual property assets relating to the laptop computer software security products of *Stealth*. At this time it is uncertain whether, when or how this development may impact Absolute’s case against *Stealth*.

Management does not regard the second patent dispute as material, and the defendant in that case has not asserted any affirmative counterclaims against Absolute.

While management firmly believes that Absolute will ultimately prevail in these two cases, the outcome, time to resolution and impact on Absolute’s business and patent portfolio, if any, cannot be determined at this time. The actual resolution of any matter before the courts, whether at a final or interlocutory stage, may differ materially as a result of future rulings issued by such courts; therefore, as additional information becomes available, management continually re-assesses the potential liability relating to pending litigation, if any. Refer to the “risks and uncertainties” section of this MD&A for further information.

Software-as-a-Service Business Model

Absolute sells its solutions in a Software-as-a-Service (“SaaS”) model in which customers acquire subscriptions to our software based services for a limited license term. From a financial perspective, the SaaS model improves the visibility of revenue streams, increases recurring cash flows and is ultimately expected to maximize profitability over time.

However, the accounting treatment for the SaaS model results in a significant deferral of revenue and profitability generated from subscriptions, despite the cash flow it generates. As a result, SaaS companies are generally evaluated based on Sales Contracts (or the increase in deferred revenue) and free cash flow as opposed to revenue and net earnings. Accordingly, we believe that an understanding of this distinction is imperative to the evaluation of Absolute’s performance.

Subscriptions to Absolute’s solutions are fully invoiced up-front for the purchase term (which varies from one to five years) with non-refundable payment received on standard invoice terms. However, as the customer pays the same amount on renewal of the contract, or on purchase of a new subscription, the full value invoiced is deferred on the balance sheet and recognized ratably over the contract term. We refer to these subscriptions as “Sales Contracts”, which, as previously mentioned, are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue and are calculated by adding revenue to the change in deferred revenue (see Note 6 of the Notes to the Consolidated Financial Statements).

As our Sales Contracts have traditionally averaged around 30 months in term, there is a significant lag between revenue recognition and the timing of the Sales Contract and non-refundable cash flows. In general, only 15-20% of Sales Contracts in any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal year are incurred to generate these Sales Contracts for the period. As a result, in times of rapid growth in the business, GAAP earnings will be significantly understated, while free cash flow will provide a measure for the expected GAAP profitability once the growth rate slows.

Further, as more than 50% of annual Sales Contracts tend to come from existing customer renewals and add-ons, we consider expenses incurred to support existing customers to be marketing related expenses to generate renewals and add-ons, as opposed to support costs for prior service commitments.

As a result, we focus on Sales Contracts and Cash from Operations as the key performance metrics for the Company. We believe these metrics provide for the most meaningful evaluation of the business, while revenue and operating income, or loss, provide a lagging indication of performance.

Financial Performance Review & Analysis

Sales Contracts and Revenue

Sales Contracts for the first six months of fiscal 2008 increased 76% (95% in U.S. dollars) to \$36.0 million, and for Q2-F2008 increased 61% (86% in U.S. dollars) to \$15.0 million, compared to the same periods last year. The increases over the prior year periods are due to Absolute's investments in its team, consumer bundling programs, strategies to specifically target opportunities in enterprise verticals (corporate, education and government), and international expansion. At the same time, awareness of security issues surrounding mobile computing has continued to create increasing demand for Absolute's solutions.

Relative to Q1-F2008, seasonal trends continued with second quarter sales declining 28% compared to a 16% decline between Q1 and Q2 of fiscal 2007. In constant dollar terms, the decline was 25% this year versus 18% last year. In the absence of currency fluctuation, the introduction of sales strategies to address the U.S. Federal Government vertical has increased the level of seasonality inherent in the business. Specifically, both the Federal Government and the education verticals tend to have a spending cycle concentration in the first quarter of our fiscal year (the three-month period ended September 30). This is due to fiscal year-end spending practices in the U.S. Federal Government and increased spending at educational institutions while students are on summer vacation. In addition, the consumer vertical tends to have a strong summer spending cycle as students prepare to go back-to-school.

A majority of Absolute's sales are denominated in U.S. dollars and therefore the decline in the U.S. dollar relative to the Canadian dollar has impacted sales contract growth rates. In U.S. dollar terms Q2-F2008 Sales Contracts increased 86% to US\$15.2 million from US\$8.1 million in Q2-F2007. On a year-to-date basis in U.S. dollar terms, F2008 Sales Contracts increased 95% from \$18.1 million in 2007 to \$35.3 million in 2008. Had the U.S. dollar exchange rate been unchanged from the rates experienced in the prior year periods, the reported Canadian dollar sales would have been \$39.9 million YTD and \$17.4 million for Q2-F2008.

The following table provides further subscription information.

	Q2-F2008	Q2-F2007	YTD Q2-F2008	YTD Q2-F2007
Total subscription sales in units	515,589	163,367	1,076,237	354,254
Percent of subscription units:				
Institutional customers	50%	80%	52%	78%
Consumer customers	50%	20%	48%	22%
Average selling price	\$29.10	\$57.01	\$33.41	\$57.71
Average contract term	29 months	32 months	31 months	32 months

The average selling price (“ASP”) per subscription has decreased from last year reflecting a changing product mix, along with a 15% year-over-year decline in the U.S. dollar relative to the Canadian dollar. While the ASP for traditional commercial and consumer theft recovery offerings has remained stable in constant dollar terms, lower priced consumer bundle programs and asset tracking solutions have become a larger proportion of total unit sales.

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.

Revenue for the current year-to-date period increased 94% to \$16.5 million, and for Q2-F2008 increased 94% to \$8.9 million compared to the same periods last year. Revenue is determined by Sales Contracts, and since the average contract life is approximately 30 months, a majority of revenue is determined by Sales Contracts completed during the prior three years. In general, only 15-20% of new and renewal Sales Contracts in any given fiscal year are included in revenue for the year, with the remainder included in deferred revenue on the balance sheet. See the SaaS Model section of this MD&A for further discussion.

Operating Expenses (dollar and subscription figures in millions):

	Q2-F2008	Q2-F2007	YTD Q2-F2008	YTD Q2-F2007
Cost of goods sold (“COS”)	\$ 3.0	\$ 1.5	\$ 5.7	\$ 2.9
Sales and marketing (“S&M”)	4.0	2.4	7.7	4.6
Research and development (“R&D”)	1.0	0.8	1.8	1.4
General and administration (“G&A”)	1.5	1.3	3.1	2.5
Total operating expenses, excluding stock based compensation*	\$ 9.5	\$ 6.1	\$ 18.4	\$ 11.4
% increase	57%	63%	61%	59%
% of Sales Contracts	63%	65%	51%	56%
Number of employees at quarter end			217	134
Subscriptions under contract			2.5	0.9

* Stock-based compensation is excluded as it is a non-cash item which has increased primarily due to changes in the Company’s stock price and growth in headcount.

Total operating expenses excluding stock-based compensation have increased 61% over last year as a result of expansion of the employee base and sales and marketing efforts to generate and support current and future sales growth targets. A majority of operating costs relate to current Sales Contracts and therefore, management focuses on total expenses excluding stock-based compensation as a percentage of Sales Contracts to measure the efficiency and effectiveness of this investment. This ratio has continued to improve with operating expenses for the six months ended December 31, 2007 declining to 51% of Sales Contracts from 56% in the same period last year.

The gross margin has remained consistent with the prior year at 65%. When considering the gross margin, it is important to recognize that approximately 30% of COS in the period are up-front costs related to the period Sales Contracts as opposed to revenue. These COS items include packaging costs and initial training, delivery and customer support costs associated with new customer subscriptions. The remaining costs relate to monitoring, recovery and guarantee costs, which management also views as a sales expense given that in excess of 50% of Sales Contracts are generated through existing customers.

Increases in sales and marketing ("S&M") expenditure reflect expansion of the sales team and increased marketing expenditures to support PC OEM and vertical growth strategies. As a percent of Sales Contracts, S&M expenses were 21% for the current year-to-date period compared to 23% last year. This improved efficiency is primarily due to strategies implemented to achieve increased leverage through Absolute's distribution partners.

Research and development ("R&D") expenditures have increased 30% for the year to date period in support of PC OEM BIOS partners, to develop new features, and to address the needs of a growing subscriber base. Resources continue to be added as the company expands into international markets and develops new computer security and management features that leverage its core embedded technology on computers and other connected devices.

General and administrative ("G&A") expenses have increased over last year primarily due to increases in rent and compensation expenses. Rent has increased as the Company moved its head office in August 2007, which increased both its square footage and lease rate. The compensation expense reflects increases in headcount and compensation levels.

Operating Loss

Absolute's operating loss before stock-based compensation was \$1.9 million for the year-to-date period, a 35% decrease from \$2.9 million for the six months ended December 31, 2006. The growth in Sales Contracts over the last three years has resulted in revenue reaching sufficient levels and growing rapidly enough to offset the increases in the operating costs required to generate the growth. Accordingly, the operating loss before stock-based compensation has begun to decline.

Stock-based compensation increased to \$1.9 million for the six months ended December 31, 2007, compared to \$0.4 million in the same period last year. The increase reflects the Company's significant headcount expansion to 217 people from 134 at this point last year, and stock price appreciation which has resulted in a higher Black-Scholes value for calculating the stock-based compensation expense. As a result, the operating loss increased to \$3.8 million for the six months ended December 31, 2007 from \$3.2 million in the same period of the prior year.

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 and commercial paper. For the year-to-date period, interest income increased from \$418,000 in fiscal 2007 to \$871,000 in fiscal 2008.

Included in short-term investments is \$2.1 million of Canadian third-party Asset Backed Commercial Paper ("ABCP"), which were rated R1 (High) by Dominion Bond Rating Service at the time of purchase. The paper is currently illiquid and accordingly management recorded a write-down of \$316,000 and reversed all interest accrued in Q1-F2008. As uncertainties continue regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's earnings.

Other expenses include foreign exchange gains and losses primarily on the translation of U.S. dollar cash, receivable and liability 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. For the year-to-date period, the foreign exchange loss was \$1.4 million as compared to a \$429,000 gain recorded in the six month period ending December 31, 2006. Absolute has not entered into hedging arrangements but may evaluate doing so for future quarters. While changes in the value of the U.S. dollar relative to the Canadian dollar have impacted the rate of Sales Contract growth, the changes have not impacted Absolute's ability to achieve its Cash Margin guidance.

Net Loss

The Company's net loss after income taxes for the quarter ended December 31, 2007 was \$1.9 million, an 84% increase from \$1.0 million for the quarter ended December 31, 2006. For the six-month period, the Company's net loss increased to \$4.7 million from \$2.3 million. The increased loss in the current year is primarily due to foreign exchange losses and increased stock-based compensation expense. Excluding these items, the net loss decreased 43% to \$1.4 million for the six months ended December 31, 2007, compared to \$2.4 million for the same period last year.

Cash from Operations

Q2-F2008 was Absolute's fourteenth consecutive quarter of generating positive cash from operations as a result of year-over-year Sales Contract growth in excess of 50% in each of the last thirteen quarters. Cash from operations for the year-to-date period is \$18.0 million, up 101% from \$9.0 million last year, and for Q2-F2008 totaled \$9.1 million, up 111% from \$4.3 million in Q2-F2007. These increases are a result of strong Sales Contract growth and increased leverage in the business. Consistent with historic trends, first and second quarter cash from operations is seasonally strong and is expected to decrease in the second half of the fiscal year.

The resulting "Cash Margin" (equal to cash from operations as a percent of Sales Contracts) increased to 50% in the first six months of fiscal 2008 as compared to 44% in the same period in fiscal 2007. Management is expecting Cash Margins for fiscal 2008 to be in a range of 35-40%, reflecting increased operating expenses in the second half of this fiscal year as the Company begins staffing for fiscal 2009.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At December 31, 2007, Absolute's cash, cash equivalents and short-term investments increased on positive operating cash flows to \$52.9 million, compared to \$34.9 million at June 30, 2007. Management expects the Company to continue generating cash from operations in the coming years, and therefore believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material capital expenditure commitments for fiscal 2008. Aside from its cash and short term investment balances and operating cash flow, the Company does not have, nor require, any additional capital resources.

Accounts receivable

Accounts receivable balances increased to \$12.0 million (80% of second quarter Sales Contracts) at December 31, 2007, from \$11.7 million (72% of fourth quarter Sales Contracts) at June 30, 2007. Quarterly Sales Contracts tend to be concentrated toward the end of the quarter and therefore 70-80% of current quarter sales tend to remain in receivables at the end of each quarter. The higher proportion of second quarter sales in receivables at December 31, 2007 reflects an increased concentration of sales toward quarter end.

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. Capitalized direct contract costs include prepaid employee commissions, prepaid service fees, and estimated warranty costs over the life of each contract.

At December 31, 2007, deferred contract costs of \$13.1 million (18% of deferred revenue) are up from \$11.2 million (21% of deferred revenue) at June 30, 2007. The decrease to 18% of deferred revenue at December 31, 2007 reflects a reduction in the overall sales commission and warranty accrual rates.

Accrued warranty

Absolute offers a recovery guarantee, or warranty, with certain of its products whereby customers are eligible for up to a US\$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 a warranty provision for the full value of estimated guarantee payments under the program. The corresponding expense is recorded as deferred contract costs and charged to cost of sales over the term of each contract. Net guarantee payments made to subscribers reduce the warranty accrual.

Accrued warranty increased to \$10.3 million (14% of deferred revenue) at December 31, 2007, compared to \$8.0 million (15% of deferred revenue) at June 30, 2007. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. The accrual rate is currently set at 0.45% of unit sales.

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 Q2-F2008 for a reconciliation of deferred revenue to Sales Contracts and revenue.

As a result of Sales Contracts of \$15.0 million in Q2-F2008, deferred revenue climbed to \$73.7 million at December 31, 2007, compared to \$54.2 million at June 30, 2007. 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

On July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, and the amount at which these items should be recorded. Under the new standard, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and the accounting for changes in fair value will depend on their initial classification.

Upon the adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-to-maturity, which are measured at amortized cost. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, are classified as other financial liabilities, which are measured at amortized cost. Transaction costs incurred to acquire financial assets are included in the underlying balance.

The Company has no hedges in effect or components that would cause comprehensive income to differ materially from the Company's statement of operations. The adoption of these standards did not result in any material impact on the Company's financial statements.

No other accounting changes were adopted during fiscal 2008 and 2007.

Quarterly Operating Data

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, and the amount at which these items should be recorded. Under the new standard, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and the accounting for changes in fair value will depend on their initial classification.

Upon the adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-to-maturity, which are measured at amortized cost. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, are classified as other financial liabilities, which are measured at amortized cost. Transaction costs incurred to acquire financial assets are included in the underlying balance.

The Company has no hedges in effect or components that would cause comprehensive income to differ materially from the Company's statement of operations. The adoption of these standards did not result in any material impact on the Company's financial statements.

No other accounting changes were adopted during Q1-F2008 and fiscal 2007.

Quarterly Operating Data

(in millions except per share data)	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07	Q1-07	Q4-06	Q3-06	Q2-06
Sales Contracts	\$15.0	\$21.0	\$16.2	\$10.6	\$ 9.3	\$11.1	\$8.4	\$ 4.7	\$ 4.2
Revenue	8.9	7.7	6.3	5.3	4.6	4.0	3.4	3.0	2.8
Operating expenses	10.6	9.7	8.0	6.6	6.3	5.5	4.8	4.3	3.8
Net (Loss)	(1.9)	(2.9)	(2.4)	(1.2)	(1.0)	(1.3)	(1.3)	(1.0)	(0.7)
Basic and diluted (loss) per share	(0.04)	(0.06)	(0.05)	(0.03)	(0.02)	(0.03)	(0.03)	(0.02)	(0.02)
Cash from operations	9.1	8.9	4.5	3.5	4.3	4.7	1.3	0.8	1.2
Operating cash per share	0.19	0.19	0.10	0.08	0.10	0.11	0.03	0.02	0.03

Shareholder's Deficiency and Outstanding Share Data

At December 31, 2007, Absolute had shareholder's deficiency of \$3.1 million. In evaluating the shareholder's equity, management believes it is important to consider the \$73.7 million of deferred revenue carried on the balance sheet. This represents prepaid (or due to be paid on standard payment terms) 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.

Effective January 4, 2008 Absolute's common shares were subdivided on a two-for-one basis. All per share amounts in this discussion and analysis have been restated to reflect the split.

The Company's common shares trade on the TSX (TSX:ABT), and at December 31, 2007, the Company had 47,165,380 (47,207,530 at February 5, 2008) fully issued and outstanding common shares.

At an Extraordinary General Meeting of the Company held on June 8, 2007, shareholders approved an amendment to the Company's Employee Share Option Plan which resulted in an increase in the number of options available for grant under the Plan to 6,916,346. In addition, shareholders approved a two-year rolling option plan whereby the number of options is increased to 15% of outstanding common shares.

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

- **Employee Stock Options:** At December 31, 2007, a total of 5,779,250 (5,769,250 at February 5, 2008) common stock options are granted and outstanding under the Company's Employee Share Option Plan. The options have a weighted average strike price of \$7.31 per share, and a weighted average term to expiry of 3.2 years. For the year to date in fiscal 2008, a total of 1,446,000 stock options were granted to employees at an average strike price of \$15.47, of which 750,000 were issued to insiders at an average strike price of \$16.27. Of these grants, a total of 952,000 were issued as hire grants to new employees.
- **Employee Share Purchase Plan (2006):** Under the Plan, employees may purchase treasury shares at a 15% discount from market during a six month offering period. A total of two million shares have been reserved for grant under the Plan, of which 274,834 have been issued as at December 31, 2007. In January 2008, 32,150 treasury shares were issued to employees at a price of \$9.92 per share in accordance with the Plan based on the offering period ended December 31, 2007.
- **Branding Agreement Warrants:** The Company issued 1,000,000 warrants in fiscal 2006 to acquire rights to the "LoJack" brand name, of which 600,000 remained outstanding at December 31, 2007. The warrants have an exercise price of \$1.00 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 invoiced sales and expenses that are generated or incurred at the start of each service subscription. 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. No management estimates are required for deferred revenue as the amortization period is based upon the purchased term of service in each contract. Deferred costs are amortized on the same basis as the contracts to which they relate, which management estimates to match the benefit period. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this asset.

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. However, actual experience will likely vary and may require a change in the estimated liability. Should these estimates change, they may require changes to the amount of warranty expense in prior and future periods, in addition to a change in the warranty accrual.

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, and such variances could lead to a material write-down or increase in the estimated value of the Company's tax assets.

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.

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, February 5, 2008, there have not been any significant subsequent events or transactions that would require disclosure in, or adjustment to, the consolidated financial statements as at December 31, 2007.

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

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

The Company has also designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP. During Q2-F2008 there were no changes to internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect, these internal controls over financial reporting.

Risks and Uncertainties

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

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 and or upgrades or updates to Windows or other operating systems and or the market adoption of these or other operating systems developed by other vendors may have an adverse effect on Absolute's business if 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 and Third Party Mischief – 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. In addition, it is possible that our product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could adversely affect the persistence of our technology and a materially adverse effect of this kind could materially adversely effect our business.

Consumer Product Liability – With the expansion of its consumer business, as with all manufacturers of products and services designed for use by consumers, the Company may be subject to claims related to product liability and consumer protection legislation, particularly in the U.S. Although the Company is insured for claims relating to product liability, no assurance can be given that a judgment will not be rendered against it in an amount exceeding the amount of insurance coverage or in respect of a claim for which the Company is not insured.

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.

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

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

Intellectual Property Licensing and or Enforcement – 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, the industry in which the Company competes

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

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.

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

Reliance on Key Personnel – Absolute's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that Absolute can retain these personnel and continue to recruit required talent. 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 has not entered into foreign exchange hedges. Should the Canadian dollar significantly appreciate relative to the U.S. dollar, then it could impede Absolute’s ability to meet its Canadian dollar sales contract growth and margin targets.

Income Taxes – 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.

Financial Statements

The interim consolidated financial statements included herein dated December 31, 2007 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 2007 Audited Financial Statements, and second quarter fiscal 2008 Management Discussion and Analysis.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Balance Sheets (Unaudited)
(Expressed in Canadian dollars)

	Notes	As At	
		December 31, 2007	June 30, 2007
ASSETS			
CURRENT			
Cash and cash equivalents	(Note 3)	\$ 26,896,665	\$ 7,779,505
Short-term investments	(Note 3)	25,998,946	27,116,968
Accounts receivable		12,021,668	11,656,260
Prepaid expenses and deposits		372,340	785,737
Current portion of deferred contract costs	(Note 4)	6,447,556	5,253,390
Current portion of future income tax assets		1,477,516	1,477,516
		73,214,691	54,069,376
DEFERRED CONTRACT COSTS	(Note 4)	6,673,473	5,935,111
PROPERTY AND EQUIPMENT		1,763,577	1,204,017
FUTURE INCOME TAX ASSETS		1,377,145	1,377,145
INTANGIBLE ASSET		319,436	383,324
		\$ 83,348,322	\$ 62,968,973
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 2,421,922	\$ 2,171,844
Current portion of accrued warranty	(Note 5)	6,541,083	4,586,738
Current portion of deferred revenue	(Note 6)	34,351,813	25,483,198
		43,314,818	32,241,780
ACCRUED WARRANTY	(Note 5)	3,766,113	3,418,312
DEFERRED REVENUE	(Note 6)	39,344,652	28,760,618
		86,425,583	64,420,710
SHAREHOLDERS' EQUITY			
Share capital and other equity	(Note 7(a))	40,739,724	39,094,936
Contributed surplus	(Note 7(b))	9,285,500	7,814,428
Deficit		(53,102,485)	(48,361,101)
		(3,077,261)	(1,451,737)
		\$ 83,348,322	\$ 62,968,973

APPROVED ON BEHALF OF THE BOARD:



John Livingston

Director



Ian Reid

Director

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION**Consolidated Statements of Operations and Deficit (Unaudited)**

Three and six months ended December 31, 2007 and 2006

(Expressed in Canadian dollars)

	Notes	Three Months ended Dec. 31,		Six Months ended Dec. 31,	
		2007	2006	2007	2006
REVENUE		8,866,149	4,558,652	16,518,155	8,533,866
COST OF GOODS SOLD		2,981,969	1,535,624	5,734,233	2,889,893
GROSS MARGIN		5,884,180	3,023,028	10,783,922	5,643,973
EXPENSES					
Sales and marketing		4,010,106	2,374,990	7,704,213	4,649,305
Research and development		962,951	812,570	1,847,044	1,417,132
General and administration		1,546,295	1,344,280	3,119,567	2,465,248
Stock-based compensation		1,087,194	183,791	1,926,547	354,120
		7,606,546	4,715,631	14,597,371	8,885,805
OPERATING LOSS		(1,722,366)	(1,692,603)	(3,813,449)	(3,241,832)
OTHER INCOME (EXPENSE)					
Interest and other income		510,219	255,385	871,233	418,233
Interest and bank charges		(25,731)	(20,440)	(48,462)	(30,748)
Foreign exchange gain (loss)		(648,401)	435,251	(1,434,506)	428,933
Write-down of short-term investments	(Note 3)	-	-	(316,200)	-
		(163,913)	670,196	(927,935)	816,418
LOSS FOR PERIOD BEFORE INCOME TAXES		(1,886,279)	(1,022,407)	(4,741,384)	(2,425,414)
FUTURE INCOME TAX RECOVERY		-	-	-	80,693
NET LOSS FOR THE PERIOD		(1,886,279)	(1,022,407)	(4,741,384)	(2,344,721)
DEFICIT, BEGINNING OF PERIOD		(51,216,206)	(43,816,530)	(48,361,101)	(42,494,216)
DEFICIT, END OF PERIOD		\$ (53,102,485)	\$ (44,838,937)	\$ (53,102,485)	\$ (44,838,937)
BASIC AND DILUTED LOSS PER SHARE	(Note 7(d))	\$ (0.04)	\$ (0.02)	\$ (0.10)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	(Note 7(d))	47,067,720	44,659,102	46,829,564	44,472,284

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Cash Flows (Unaudited)

Three and six months ended December 31, 2007 and 2006

(Expressed in Canadian dollars)

	Notes	Three Months ended Dec. 31,		Six Months ended Dec. 31,	
		2007	2006	2007	2006
OPERATING ACTIVITIES					
Net loss for the period		\$ (1,886,279)	\$ (1,022,407)	\$ (4,741,384)	\$ (2,344,721)
Items not involving cash					
Amortization of property and equipment		188,383	109,665	346,132	205,352
Stock-based compensation		1,087,194	183,791	1,926,547	354,120
Amortization of intangible asset		31,944	31,944	63,888	63,887
Future income taxes		-	-	-	(80,693)
Write-down of short-term investments	(Note 3)	-	-	316,200	-
Change in non-cash operating working capital					
Accounts receivable		2,774,057	51,570	(365,408)	(717,283)
Prepaid expenses and deposits		32,809	(77,959)	413,397	(78,296)
Deferred contract costs		(228,457)	(581,308)	(1,932,527)	(1,908,482)
Accounts payable and accrued liabilities		62,016	20,339	250,078	(652,498)
Accrued warranty		837,828	773,380	2,302,145	2,111,268
Deferred revenue		6,207,385	4,831,512	19,452,648	12,018,585
CASH FROM OPERATING ACTIVITIES		9,106,880	4,320,527	18,031,716	8,971,239
INVESTING ACTIVITIES					
Property and equipment purchased		(466,291)	(356,483)	(905,691)	(538,021)
Proceeds from maturities of short term investments		8,006,180	7,904,731	16,149,106	17,055,731
Purchases of short term investments		(2,593,525)	(17,593,114)	(15,347,284)	(26,629,299)
CASH (USED IN) FROM INVESTING ACTIVITIES		4,946,364	(10,044,866)	(103,869)	(10,111,589)
FINANCING ACTIVITIES					
Issuance of common shares	(Note 7(a))	249,994	83,548	1,189,313	418,741
CASH FROM FINANCING ACTIVITIES		249,994	83,548	1,189,313	418,741
NET CASH INFLOW (OUTFLOW)		14,303,238	(5,640,791)	19,117,160	(721,609)
CASH AND CASH EQUIVALENTS,					
BEGINNING OF PERIOD		12,593,427	8,900,863	7,779,505	3,981,681
CASH AND CASH EQUIVALENTS,					
END OF PERIOD		\$ 26,896,665	\$ 3,260,072	\$ 26,896,665	\$ 3,260,072
COMPOSITION OF CASH AND CASH EQUIVALENTS:					
Cash				\$ 2,524,075	\$ 3,260,072
Cash equivalents				24,372,590	-
				\$ 26,896,665	\$ 3,260,072

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements (Unaudited)

Six months ended December 31, 2007 and 2006

(Expressed in Canadian dollars)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

These unaudited consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of Absolute Software Corporation (the "Company") and its subsidiaries. All significant intercompany balances have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial information and are based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements. 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. The interim financial statements should be read in conjunction with the June 30, 2007 audited consolidated financial statements. Certain prior year amounts have been reclassified in order to conform to the 2008 presentation.

(b) Deferred revenue and revenue recognition

A majority of the Company's sales contracts are for subscriptions for computer theft recovery and secure asset tracking services with subscription terms ranging from one to five years. The full value of each sales contract is invoiced and receivable upon signing the contract, and is non-refundable. However, these sales are comprised of multiple elements, including software, monitoring service and maintenance, which are not separable for accounting purposes. As a result, the revenue from these contracts is carried as deferred revenue on the balance sheet and is amortized to monitoring revenue ratably over the contract term. Amortization of sales contracts to revenue commences in the month after sale. A portion of the associated direct costs, such as commissions and warranty accruals (Note 4), are also deferred and expensed ratably over the contract term. Despite this partial cost deferral, a majority of period costs relate to generating the period Sales Contracts as opposed to the revenue for the period.

The Company completes a majority of its sales contracts through OEM and reseller partners primarily in North America. All sales contracts are recorded at the net sale amount received by Absolute from the reseller. For direct sales, the sales contract is recorded at the sale amount received direct from the customer.

Foreign denominated sales contracts are recorded at the Canadian dollar equivalent based on the average exchange rate in the month the sale occurred. The average foreign exchange rate for the Company's sales was \$1.018 for YTD 2008 and \$1.130 for YTD 2007.

2. CHANGE IN ACCOUNTING POLICIES:

On July 1, 2007, the Company adopted the Canadian Institute of Chartered Accountants Handbook Section 1530, Comprehensive Income, Section 3251, Equity, Section 3855, Financial Instruments – Recognition and Measurement, Section 3861, Financial Instruments – Disclosure and Presentation and Section 3865, Hedges.

Section 3855 prescribes when a financial asset, financial liability or non-financial derivative is to be recognized on the balance sheet, and the amount at which these items should be recorded. Under the new standard, financial instruments must be classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale or other financial liabilities. All financial instruments, including derivatives, are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and the accounting for changes in fair value will depend on their initial classification.

Upon the adoption of these new standards, the Company designated its cash and cash equivalents and short-term investments as held-to-maturity, which are measured at amortized cost. Accounts receivables are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, are classified as other financial liabilities, which are measured at amortized cost. Transaction costs incurred to acquire financial assets are included in the underlying balance.

The Company has no hedges in effect or components that would cause comprehensive income to differ materially from the Company's statement of operations. The adoption of these standards did not result in any material impact on the Company's financial statements.

3. CASH AND CASH EQUIVALENTS AND SHORT TERM INVESTMENTS:

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. Short-term investments are carried at amortized cost and are translated at quarter-end exchange rates.

At December 31, 2007, the Company held Canadian third party Asset Backed Commercial Paper ("ABCP") with an original cost of \$2.1 million and a maturity date of November 8, 2007. At the date the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Service, the highest credit rating issued for commercial paper, and backed by R1 (High) rated assets, and liquidity agreements. The ABCP market in Canada is currently illiquid and the maturity date of its investment has been extended. In addition, the Company expects some loss in principal on its investment and a provision of 15% of the cost base of the ABCP, or \$0.3 million, was recorded in the quarter ended September 30, 2007. The investment has been classified in short term investments on the balance sheet and previously accrued interest income has been reversed.

Continuing uncertainties regarding the value of the assets which underlie the ABCP, the amount and timing of cash flows and the outcome of the restructuring process could give rise to a further change in the value of the Company's investment in ABCP which would impact the Company's earnings.

4. DEFERRED CONTRACT COSTS

	As at	
	December 31, 2007	June 30, 2007
Prepaid sales commissions	\$ 5,048,870	\$ 4,462,754
Accrued warranty and prepaid insurance costs	7,826,945	6,564,461
Other prepaid / accrued contract costs	245,214	161,286
Balance at the end of the period	13,121,029	11,188,501
Less: Current portion	(6,447,556)	(5,253,390)
Long term portion	\$ 6,673,473	\$ 5,935,111

5. ACCRUED WARRANTY AND GUARANTEE

	As at	
	December 31, 2007	June 30, 2007
Balance at the beginning of the period	\$ 8,005,050	\$ 2,920,695
Warranty accrual on new sales contracts	* 2,796,297	5,595,019
Warranty claims paid	* (494,151)	(876,647)
Insurance premiums paid, net of insurance proceeds	* -	365,983
Balance at the end of the period	10,307,196	8,005,050
Less: Current portion	(6,541,083)	(4,586,738)
Long term portion	\$ 3,766,113	\$ 3,418,312

* For 6 months ended December 31, 2007 and 12 months ended June 30, 2007.

6. DEFERRED REVENUE

	As at	
	December 31, 2007	June 30, 2007
Balance at the beginning of the period	\$ 54,243,816	\$ 26,997,644
Add: Sales contracts during the period	* 35,959,411	47,276,169
Less: Revenue recognized during the period	* (16,518,155)	(20,136,048)
Less: Other adjustments	* 11,393	106,051
Balance at the end of the period	73,696,465	54,243,816
Less: Current portion	(34,351,813)	(25,483,198)
Long term portion	\$ 39,344,652	\$ 28,760,618

* For 6 months ended December 31, 2007 and 12 months ended June 30, 2007.

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

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2007	46,108,978	800,000	\$ 39,094,936
Shares issued on options exercised (c)	797,528	-	1,225,850
Shares issued under Employee Share Purchase Plan	58,874	-	218,938
Shares issued on broker warrants exercised	200,000	(200,000)	200,000
Balance December 31, 2007	47,165,380	600,000	\$ 40,739,724

(b) Contributed Surplus

	As at	
	December 31, 2007	June 30, 2007
Contributed surplus, beginning of period	\$ 7,814,428	\$ 7,665,150
Stock-based compensation expense recorded on option and purchase plans	* 1,926,547	951,819
Transfer to share capital on exercise of options and warrants	* (455,475)	(802,541)
Contributed surplus, end of period	\$ 9,285,500	\$ 7,814,428

* For 6 months ended December 31, 2007 and 12 months ended June 30, 2007.

(c) Stock Options

The 2001 Employee Share Option Plan initially provided for a maximum of 8,130,412 common shares to be allocated to participants. During fiscal 2007, the Company's shareholders approved a change to the Plan whereby the option pool is set at a rolling maximum equal to 15% of outstanding shares, subject to ratification by shareholders every two years. Accordingly, the maximum number of shares issuable under the Plan at December 31, 2007 was 7,074,807. At December 31, 2007, the total share options outstanding were:

Share options outstanding, beginning of period	5,228,028
Exercised during the period	(797,528)
Forfeited during the period	(97,250)
Granted during the period	1,446,000
Outstanding, end of period	5,779,250
Weighted average exercise price	\$ 7.31
Weighted average term remaining	3.2 years
Number of options exercisable at December 31, 2007	1,396,124
Weighted average price of exercisable options	\$ 0.85

(c) Stock Split

On December 14, 2007, shareholders approved a two-for-one share split for its common shares effective as of the close of business on January 4, 2008. All share and per share information included in the consolidated financial statements and accompanying notes has been adjusted to reflect this share split for all periods presented.

8. SEGMENTED INFORMATION

The Company carries on business in the computer security monitoring 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 fixed assets and intangible assets.

	Six months ended December 31,	
	2007	2006
Revenue		
United States	\$ 15,663,656	\$ 7,991,391
Canada and International	854,499	542,475
Total	\$ 16,518,155	\$ 8,533,866
	As at	
	December 31, 2007	June 30, 2007
Long Lived Assets		
Canada	\$ 2,028,893	\$ 1,524,966
United States and International	54,120	62,375
Total	\$ 2,083,013	\$ 1,587,341

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

Phil Gardner
Minnesota, USA

OFFICERS AND SENIOR MANAGEMENT

John Livingston
Chairman, Chief Executive Officer

Phil Gardner
Chief Technology Officer

Rob Chase
Chief Financial Officer

Carter McCrary
Senior Vice President, Strategy

Rich Cohen
Vice President Sales, Worldwide

Ben Haidri
Vice President, Business Development

Gareth Mason
Vice President, Service Delivery

Bill Pound
Vice President, International Operations

Don Hughes
Area Vice President, Emerging Markets

Jim MacCallum
Vice President, Finance

Lyle Singular
Area Vice President, Recovery Services

Leigh Day
Area Vice President, Global Technical Support

Trevor Wiebe
General Counsel & Corporate Secretary

CORPORATE INFORMATION

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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.

ADDITIONAL INFORMATION

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* Chairman of Compensation Committee

** Chairman of Strategic Planning Committee

*** Chairman of Audit Committee