

*Interim Consolidated Financial Statements of*

***ABSOLUTE SOFTWARE CORPORATION***

*December 31, 2009 and 2008*

(Unaudited)

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

|  | Notes       | As At                 |                       |
|--|-------------|-----------------------|-----------------------|
|  |             | December 31,<br>2009  | June 30,<br>2009      |
| <b>ASSETS</b>  |             |                       |                       |
| <b>CURRENT</b>   |             |                       |                       |
| Cash and cash equivalents  | (Note 4)    | \$ 31,926,285         | \$ 56,078,004         |
| Short-term investments   | (Note 4)    | 8,705,768             | 8,743,861             |
| Accounts receivable, net of allowance for doubtful<br>accounts of \$2,164,000 (2009 - \$2,387,000) |             | 11,420,690            | 15,570,780            |
| Prepaid expenses and other   |             | 1,409,532             | 974,564               |
| Current portion of deferred contract costs   | (Note 5)    | 3,894,761             | 3,609,944             |
| Current portion of future income tax assets  | (Note 6)    | 10,662,417            | 10,646,521            |
|  |             | <b>68,019,453</b>     | <b>95,623,674</b>     |
| INVESTMENTS  | (Note 4)    | 24,337,763            | 4,076,211             |
| DEFERRED CONTRACT COSTS  | (Note 5)    | 3,716,314             | 3,765,717             |
| PROPERTY AND EQUIPMENT   |             | 2,775,823             | 2,644,275             |
| FUTURE INCOME TAX ASSETS   | (Note 6)    | 11,636,321            | 11,081,073            |
| INTANGIBLE ASSETS  | (Note 3)    | 16,994,499            | 127,775               |
|  |             | <b>\$ 127,480,173</b> | <b>\$ 117,318,725</b> |
| <b>LIABILITIES</b>   |             |                       |                       |
| <b>CURRENT</b>   |             |                       |                       |
| Accounts payable and accrued liabilities   |             | \$ 6,592,154          | \$ 6,775,466          |
| Income tax payable   | (Note 6)    | 3,545,000             | 1,575,000             |
| Current portion of purchase price payable  | (Note 3)    | 1,708,113             | -                     |
| Current portion of accrued warranty  | (Note 7)    | 5,524,067             | 5,288,520             |
| Current portion of deferred revenue, net   | (Note 8(a)) | 50,996,667            | 46,577,880            |
|  |             | <b>68,366,001</b>     | <b>60,216,866</b>     |
| PURCHASE PRICE PAYABLE   | (Note 3)    | 3,416,227             | -                     |
| ACCRUED WARRANTY   | (Note 7)    | 6,229,266             | 5,963,650             |
| DEFERRED REVENUE, NET  | (Note 8(a)) | 49,456,729            | 49,278,726            |
|  |             | <b>127,468,223</b>    | <b>115,459,242</b>    |
| <b>SHAREHOLDERS' EQUITY</b>  |             |                       |                       |
| Share capital  | (Note 9(a)) | 43,845,884            | 41,988,977            |
| Contributed surplus  | (Note 9(b)) | 27,515,987            | 26,822,975            |
| Deficit  |             | (71,349,921)          | (66,952,469)          |
|  |             | <b>11,950</b>         | <b>1,859,483</b>      |
|  |             | <b>\$ 127,480,173</b> | <b>\$ 117,318,725</b> |

APPROVED ON BEHALF OF THE BOARD:

"John Livingston"

Director

"J Ian Giffen"

Director

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

**ABSOLUTE SOFTWARE CORPORATION**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

|  | Notes       | Three Months    |                 | Six Months      |                 |
|--|-------------|-----------------|-----------------|-----------------|-----------------|
|  |             | 2009            | 2008            | 2009            | 2008            |
| REVENUE  |             | 15,837,648      | 13,127,441      | 30,884,706      | 25,236,489      |
| COST OF REVENUE  |             | 3,802,066       | 3,600,744       | 7,556,479       | 6,924,429       |
| GROSS MARGIN   |             | 12,035,582      | 9,526,697       | 23,328,227      | 18,312,060      |
| EXPENSES   |             |                 |                 |                 |                 |
| Sales and marketing  |             | 9,152,200       | 6,996,446       | 17,321,967      | 13,920,664      |
| Research and development   |             | 2,027,910       | 1,740,668       | 3,657,018       | 3,443,656       |
| General and administration   |             | 1,945,225       | 1,989,333       | 3,862,223       | 3,709,096       |
| Investment tax credits   |             | (250,000)       | (675,000)       | (500,000)       | (675,000)       |
| Stock-based compensation   |             | 582,217         | 13,110,373      | 1,168,678       | 14,670,700      |
|  |             | 13,457,552      | 23,161,820      | 25,509,886      | 35,069,116      |
| OPERATING LOSS   |             | (1,421,970)     | (13,635,123)    | (2,181,659)     | (16,757,056)    |
| OTHER INCOME (EXPENSE)   |             |                 |                 |                 |                 |
| Interest and bank charges, net   |             | 195,152         | 512,432         | 352,860         | 964,577         |
| Foreign exchange (loss) gain   |             | (487,210)       | 1,049,534       | (1,886,456)     | 1,965,682       |
| Gain (loss) on foreign exchange contracts                                  |             | -               | (1,226,120)     | -               | (1,226,120)     |
| Restructuring charges  |             | -               | (989,132)       | -               | (989,132)       |
| Unrealized loss on investment  | (Note 4)    | (282,898)       | (493,815)       | (147,329)       | (917,904)       |
|  |             | (574,956)       | (1,147,101)     | (1,680,925)     | (202,897)       |
| LOSS FOR PERIOD BEFORE INCOME TAXES  |             | (1,996,926)     | (14,782,224)    | (3,862,584)     | (16,959,953)    |
| INCOME TAX EXPENSE   | (Note 6)    | (280,000)       | (675,000)       | (450,000)       | (675,000)       |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD                             |             | (2,276,926)     | (15,457,224)    | (4,312,584)     | (17,634,953)    |
| DEFICIT, BEGINNING OF PERIOD   |             | (68,988,127)    | (58,930,347)    | (66,952,469)    | (56,752,618)    |
| ADJUSTMENT ON SHARE REPURCHASE   | (Note 9(d)) | (84,868)        | (1,604,524)     | (84,868)        | (1,604,524)     |
| DEFICIT, END OF PERIOD   |             | \$ (71,349,921) | \$ (75,992,095) | \$ (71,349,921) | \$ (75,992,095) |
| BASIC AND DILUTED LOSS PER SHARE   |             | \$ (0.05)       | \$ (0.32)       | \$ (0.09)       | \$ (0.37)       |
| WEIGHTED AVERAGE NUMBER OF COMMON<br>SHARES OUTSTANDING, BASIC AND DILUTED |             | 46,228,164      | 48,105,228      | 46,074,434      | 48,027,394      |

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

# ABSOLUTE SOFTWARE CORPORATION

## Consolidated Statements of Cash Flows

Three and six months ended December 31, 2009 and 2008

(Expressed in Canadian dollars) (Unaudited)

|  | Notes    | Three Months         |                      | Six Months           |                      |
|--|----------|----------------------|----------------------|----------------------|----------------------|
|  |          | 2009                 | 2008                 | 2009                 | 2008                 |
| <b>OPERATING ACTIVITIES</b>                        |          |                      |                      |                      |                      |
| Net loss for the period                            |          | \$ (2,276,926)       | \$ (15,457,224)      | \$ (4,312,584)       | \$ (17,634,953)      |
| Items not involving cash                           |          |                      |                      |                      |                      |
| Amortization of property and equipment             |          | 334,527              | 265,341              | 637,165              | 495,149              |
| Amortization of intangible assets                  | (Note 3) | 318,904              | 31,944               | 350,848              | 63,888               |
| Stock-based compensation                           |          | 582,217              | 13,110,373           | 1,168,678            | 14,670,700           |
| Future income taxes                                | (Note 6) | (480,000)            | (1,300,000)          | (2,020,000)          | (1,300,000)          |
| Unrealized loss on investment                      | (Note 4) | 282,898              | 493,815              | 147,329              | 917,904              |
| Realized loss on foreign exchange contract         |          | -                    | 416,500              | -                    | 416,500              |
| Change in non-cash operating working capital       |          |                      |                      |                      |                      |
| Accounts receivable                                |          | 329,984              | 387,126              | 4,150,090            | 6,202,940            |
| Prepaid expenses and other                         |          | (409,763)            | 25,571               | (434,968)            | 108,558              |
| Deferred contract costs                            |          | (68,245)             | (36,115)             | (235,414)            | (259,364)            |
| Accounts payable and accrued liabilities           |          | 2,017,551            | (50,138)             | (210,113)            | (326,924)            |
| Income tax payable                                 | (Note 6) | 510,000              | 1,300,000            | 1,970,000            | 1,300,000            |
| Accrued warranty                                   |          | 32,487               | 954,661              | 501,163              | 1,814,619            |
| Deferred revenue                                   |          | 444,721              | 2,942,025            | 4,216,474            | 5,707,597            |
| <b>CASH FROM OPERATING ACTIVITIES</b>              |          | <b>1,618,355</b>     | <b>3,083,879</b>     | <b>5,928,668</b>     | <b>12,176,614</b>    |
| <b>INVESTING ACTIVITIES</b>                        |          |                      |                      |                      |                      |
| Property and equipment purchased                   |          | (480,793)            | (249,660)            | (751,717)            | (955,559)            |
| Acquisition of LANrev                              | (Note 3) | (10,254,256)         | -                    | (10,254,256)         | -                    |
| Other asset  |          | -                    | (725,374)            | -                    | (725,374)            |
| Realized loss on foreign exchange contract         |          | -                    | (416,500)            | -                    | (416,500)            |
| Proceeds from maturities of short term investments |          | 5,006                | 6,661,000            | 7,311,464            | 8,231,571            |
| Purchases of short term investments                |          | (7,420,699)          | (1,190,081)          | (7,420,699)          | (2,211,157)          |
| Proceeds from maturities of investments            |          | -                    | 961,000              | -                    | 961,000              |
| Purchases of investments                           |          | (152,898)            | (1,780,704)          | (20,261,552)         | (3,903,058)          |
| <b>CASH (USED IN) FROM INVESTING ACTIVITIES</b>    |          | <b>(18,303,640)</b>  | <b>3,259,681</b>     | <b>(31,376,760)</b>  | <b>980,923</b>       |
| <b>FINANCING ACTIVITIES</b>                        |          |                      |                      |                      |                      |
| Repurchase of common shares for cancellation       |          | (101,250)            | (2,272,154)          | (101,250)            | (2,272,154)          |
| Issuance of common shares                          |          | 545,401              | 173,171              | 1,397,623            | 1,066,833            |
| <b>CASH FROM (USED IN) FINANCING ACTIVITIES</b>    |          | <b>444,151</b>       | <b>(2,098,983)</b>   | <b>1,296,373</b>     | <b>(1,205,321)</b>   |
| <b>NET CASH (OUTFLOW) INFLOW</b>                   |          | <b>(16,241,134)</b>  | <b>4,244,577</b>     | <b>(24,151,719)</b>  | <b>11,952,216</b>    |
| <b>CASH AND CASH EQUIVALENTS,</b>                  |          |                      |                      |                      |                      |
| <b>BEGINNING OF PERIOD</b>                         |          | <b>48,167,419</b>    | <b>54,167,938</b>    | <b>56,078,004</b>    | <b>46,460,299</b>    |
| <b>CASH AND CASH EQUIVALENTS,</b>                  |          |                      |                      |                      |                      |
| <b>END OF PERIOD</b>                               |          | <b>\$ 31,926,285</b> | <b>\$ 58,412,515</b> | <b>\$ 31,926,285</b> | <b>\$ 58,412,515</b> |

SUPPLEMENTAL CASH FLOW INFORMATION (Note 10)

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

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**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 interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial information and, accordingly, do not include all information and footnote disclosures required for an annual set of financial statements under GAAP. Results for the interim periods presented are not necessarily indicative of the results that may be expected for the year or for any other period. These interim consolidated financial statements are based on accounting principles and practices consistent with those used in the preparation of the audited annual consolidated financial statements for the year ended June 30, 2009 and should be read in conjunction with those financial statements and notes thereto. Certain comparative figures have been reclassified in order to conform with the current period's presentation.

(b) Deferred revenue and revenue recognition

Deferred revenue is comprised of the remaining deferred revenue balance of Sales Contracts, net of the related deferred warranty costs.

A majority of the Company's revenue is from subscriptions ("Sales Contracts") to sales contracts which are 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 (payable within industry standard invoice terms) upon signing the contract, and payment is non-refundable. However, these sales are comprised of multiple elements, including software, monitoring, theft recovery and maintenance services over the term, which are not separable for accounting purposes. As a result, the revenue from these contracts is recorded 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, are also deferred and expensed ratably over the contract term to match the revenue recognition.

The Company completes a majority of its Sales Contracts through Original Equipment Manufacturers ("OEMs") and reseller partners, the majority of which are in North America. All Sales Contracts are recorded at the net sale amount received by Absolute from the reseller, provided that all significant contractual obligations have been satisfied and collection is reasonably assured. For direct sales, the Sales Contract is recorded at the sale amount to be 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 U.S. dollar exchange rate for the Company's Sales Contracts was \$1.0970 and \$1.0558 for the three months ended September 30 and December 31, 2009, respectively (Fiscal 2009 - \$1.0445 and \$1.2148, respectively).

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

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**1. SIGNIFICANT ACCOUNTING POLICIES (continued):**

(c) Intangible assets

Intangible assets acquired in a business combination are recorded at their fair values. Intangible assets with finite useful lives are amortized using the straight line method over the following estimated useful lives:

| <b>Asset</b>           |         |
|------------------------|---------|
| Acquired software      | 5 years |
| Customer relationships | 5 years |

**2. CHANGES IN ACCOUNTING POLICIES**

Business Combinations

In January 2009, the CICA issued Handbook Section 1582, “*Business Combinations*”. This section establishes the standards for the accounting of business combinations that are equivalent to the business combination accounting standards under International Financial Reporting Standards. Under this section, all assets and liabilities of an acquired business will be recorded at fair value at the acquisition date. The standard also states that acquisition related costs will be expensed as incurred and that restructuring charges will be expensed in the periods after the acquisition date. This new section will be applicable to financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted. The Company does not believe the adoption of this section will have a material impact on its consolidated financial statements.

**3. ACQUISITION OF LANREV**

On December 2, 2009, the Company acquired certain assets and operations of Pole Position Software GmbH, a software company specializing in systems management software. Pole Position’s sole product is LANrev (“LANrev”), a comprehensive, cross-platform endpoint and computer asset management software solution.

The asset purchase has been accounted for as a business combination, with the Company being identified as the acquirer. The results of the acquired LANrev business are included in the Company’s results of operations from the purchase date of December 2, 2009.

The allocation of the purchase price disclosed hereunder has been based upon management’s preliminary estimates and certain assumptions with respect to the fair value increment associated with the assets acquired and liabilities assumed. The Company will continue to review information and perform further analysis prior to finalizing the allocation of the purchase price. The actual fair values of the assets and liabilities will be determined as of the date of acquisition and may differ materially from the amounts disclosed below in the preliminary purchase price allocation.

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

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**3. ACQUISITION OF LANREV (continued):**

The aggregate purchase price of \$15,378,596 was comprised of cash and 500,000 common shares of the Company, as follows:

|                   |                      |
|-------------------|----------------------|
| Cash              | \$ 12,624,043        |
| Common shares     | 2,568,518            |
| Acquisition costs | 186,035              |
|                   | <u>\$ 15,378,596</u> |

Of the above, \$2,555,822 (USD \$2,500,000) and the 500,000 common shares are deferred consideration, with each amount payable in equal one-third installments annually on the first three anniversary dates of the acquisition. The fair value of the common shares to be issued was determined based on the average closing price of the Company's common shares for a reasonable period prior to and following the acquisition date of December 2, 2009. These deferred amounts have been discounted to present value using a discounted cash flow model.

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

|                        |                      |
|------------------------|----------------------|
| Property and equipment | \$ 16,998            |
| Intangible assets      | 17,217,572           |
| Accrued liabilities    | (26,801)             |
| Deferred revenue       | (380,317)            |
| Future income taxes    | (1,448,856)          |
|                        | <u>\$ 15,378,596</u> |

Details of the acquired intangible assets are as follows:

|                        |                      |
|------------------------|----------------------|
| Acquired software      | \$ 16,866,214        |
| Customer relationships | 351,358              |
|                        | <u>\$ 17,217,572</u> |

These intangible assets have each been determined to have a useful life of 5 years. In the three and six months ended December 31, 2009, the Company recorded \$286,960 of amortization of these acquired intangible assets.

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

**4. CASH AND CASH EQUIVALENTS AND INVESTMENTS**

The components of the Company's cash and cash equivalents and investments balances are as follows:

|                                 | Cost and Recorded Basis |                    |                   | Allocation for Balance Sheet |                        |                       |
|---------------------------------|-------------------------|--------------------|-------------------|------------------------------|------------------------|-----------------------|
|                                 | Cost Basis              | Unrealized Losses  | Recorded Basis    | Cash and Cash Equivalents    | Short-Term Investments | Long-Term Investments |
| <b>As at December 31, 2009</b>  |                         |                    |                   |                              |                        |                       |
| Bank balances and term deposits | 39,634,234              |                    | 39,634,234        | 31,926,285                   | 7,707,949              |                       |
| Replacement Notes (ABCP)        | 2,015,033               | (1,032,920)        | 982,113           |                              |                        | 982,113               |
| Investment Grade Securities     | 23,355,650              |                    | 23,355,650        |                              | -                      | 23,355,650            |
| Marketable securities           | 2,434,037               | (1,436,218)        | 997,819           |                              | 997,819                |                       |
|                                 | <b>67,438,954</b>       | <b>(2,469,138)</b> | <b>64,969,816</b> | <b>31,926,285</b>            | <b>8,705,768</b>       | <b>24,337,763</b>     |
| <b>As at June 30, 2009</b>      |                         |                    |                   |                              |                        |                       |
| Bank balances and term deposits | 57,655,453              |                    | 57,655,453        | 56,078,004                   | 1,577,449              |                       |
| Replacement Notes (ABCP)        | 2,015,033               | (1,032,920)        | 982,113           |                              |                        | 982,113               |
| Investment Grade Securities     | 9,115,362               |                    | 9,115,362         |                              | 6,021,264              | 3,094,098             |
| Marketable securities           | 2,434,037               | (1,288,889)        | 1,145,148         |                              | 1,145,148              |                       |
|                                 | <b>71,219,885</b>       | <b>(2,321,809)</b> | <b>68,898,076</b> | <b>56,078,004</b>            | <b>8,743,861</b>       | <b>4,076,211</b>      |

For the three and six months ended December 31, 2009, the Company recorded an unrealized loss in the amount of \$282,898 and \$147,329, respectively (fiscal 2009 - \$493,815 and \$917,904) for its holdings of marketable securities.

**5. DEFERRED CONTRACT COSTS**

|                                  | <b>December 31,<br/>2009</b> | June 30,<br>2009 |
|----------------------------------|------------------------------|------------------|
| Prepaid sales commissions        | \$ 7,391,523                 | \$ 7,185,096     |
| Prepaid royalties                | 219,552                      | 190,565          |
| Balance at the end of the period | <b>7,611,075</b>             | 7,375,661        |
| Less: Current portion            | <b>(3,894,761)</b>           | (3,609,944)      |
| Long term portion                | <b>\$ 3,716,314</b>          | \$ 3,765,717     |

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

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**6. INCOME TAXES**

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

For the three and six months ended December 31, 2009, the Company recorded a current tax expense of \$0.8 million and \$2.5 million, respectively (fiscal 2009 - \$2.0 million and \$2.0 million), and a future income tax recovery of \$0.5 million and \$2.0 million, respectively (fiscal 2009 - \$1.3 million and \$1.3 million), based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2010. As of December 31, 2009, the Company had total net future tax assets of \$22.3 million (June 30, 2009 - \$21.7 million), primarily related to deferred revenue balances, and current income taxes payable of \$3.5 million (June 30, 2009 - \$1.6 million).

**7. ACCRUED WARRANTY AND GUARANTEE**

The Company offers a service guarantee, or warranty, with certain of its products. Upon signing Sales Contracts that include the service guarantee, the Company records accrued warranty for the estimated cost of potential warranty claims during the term of each contract. The impact of changes in the estimated warranty liability based on actual experience and expected warranty payment rates are reflected in the warranty accrual. At December 31, 2009 and June 30, 2009, the accrued warranty is as follows:

|   | <b>December 31,<br/>2009</b> | June 30,<br>2009            |
|---|------------------------------|-----------------------------|
|   | <u>                    </u>  | <u>                    </u> |
| Balance at the beginning of the period  | \$ 11,252,170                | \$ 11,844,593               |
| Warranty accrual on new sales contracts | * 1,614,499                  | 1,077,500                   |
| Warranty claims paid                    | * (1,113,336)                | (1,669,923)                 |
|   | <u>11,753,333</u>            | <u>11,252,170</u>           |
| Less: Current portion                   | (5,524,067)                  | (5,288,520)                 |
| Long term portion                       | <u>\$ 6,229,266</u>          | <u>\$ 5,963,650</u>         |

\* For six months ended December 31, 2009 and 12 months ended June 30, 2009.

**ABSOLUTE SOFTWARE CORPORATION**  
**Notes to the Interim Consolidated Financial Statements**  
**Three and six months ended December 31, 2009 and 2008**  
**(Expressed in Canadian dollars) (Unaudited)**

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**8. DEFERRED REVENUE**

(a) Deferred revenue is comprised of invoiced Sales Contracts from current and prior periods that have yet to be recognized as revenue, net of the deferred portion of any related warranty accruals (“deferred warranty cost”). Both balances are amortized ratably over the term of the related Sales Contracts, with the deferred revenue portion amortized to revenue and the deferred warranty costs being amortized to cost of goods sold.

The following table provides a breakdown of the net deferred revenue balances at December 31 and June 30, 2009:

|  | <u>December 31,</u><br><u>2009</u> | <u>June 30,</u><br><u>2009</u> |
|--|------------------------------------|--------------------------------|
| Deferred Revenue from Sales Contracts (see 8(b)) | \$ 107,567,502                     | \$ 103,210,166                 |
| Deferred Warranty costs                          | (7,114,106)                        | (7,353,560)                    |
| Deferred Revenue                                 | <u>100,453,396</u>                 | <u>95,856,606</u>              |
| Less: Current portion                            | (50,996,667)                       | (46,577,880)                   |
| Long term portion                                | <u>\$ 49,456,729</u>               | <u>\$ 49,278,726</u>           |

(b) The following table provides a reconciliation of the deferred revenue balances to invoiced Sales Contracts and revenue:

|  | <u>December 31,</u><br><u>2009</u> | <u>June 30,</u><br><u>2009</u> |
|--|------------------------------------|--------------------------------|
| Balance, beginning of period               | \$ 103,210,166                     | \$ 87,846,477                  |
| Add: Sales Contracts during the period     | 35,301,044                         | 71,873,919                     |
| Add: Acquired from LANrev (Note 3)         | 380,317                            | -                              |
| Less: Revenue recognized during the period | (30,884,706)                       | (53,218,894)                   |
| Less: Other adjustments                    | (439,319)                          | (3,291,336)                    |
| Balance, end of period                     | <u>\$ 107,567,502</u>              | <u>\$ 103,210,166</u>          |
| Less: Current portion                      | (54,910,756)                       | (50,504,028)                   |
| Long term portion                          | <u>\$ 52,656,746</u>               | <u>\$ 52,706,138</u>           |

\* For six months ended December 31, 2009 and 12 months ended June 30, 2009.

Sales Contracts represent invoiced subscriptions to the Company’s solutions, and are considered a key metric for evaluating Company sales and operational performance.

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**9. SHAREHOLDERS' EQUITY**

**(a) Issued and outstanding**

|  | Number<br>of Shares | Number<br>of Warrants | Amount               |
|--|---------------------|-----------------------|----------------------|
| Common shares  |                     |                       |                      |
| Balance at June 30, 2009   | 45,694,350          | 400,000               | \$ 41,988,977        |
| Shares issued on options exercised (c)   | 397,477             | -                     | 1,258,686            |
| Shares issued under Employee Share<br>Purchase Plan ("ESPP")                                 | 147,759             | -                     | 415,203              |
| Shares repurchased and cancelled during the<br>period under the Normal Course Issuer Bid (d) | (20,000)            |                       | (16,982)             |
| Shares issued for cash on warrants exercised   | 200,000             | (200,000)             | 200,000              |
| <b>Balance December 31, 2009</b>   | <b>46,419,586</b>   | <b>200,000</b>        | <b>\$ 43,845,884</b> |

**(b) Contributed surplus**

|  | As at<br>December 31,<br>2009 | June 30,<br>2009     |
|--|-------------------------------|----------------------|
| Contributed surplus, beginning of period                         | \$ 26,822,975                 | \$ 11,938,462        |
| Stock-based compensation expense recorded<br>on options and ESPP | * 1,168,678                   | 15,792,738           |
| Transfer to share capital on exercise of<br>options and warrants | * (475,666)                   | (908,225)            |
| <b>Contributed surplus, end of period</b>                        | <b>\$ 27,515,987</b>          | <b>\$ 26,822,975</b> |

\* For six months ended December 31, 2009 and 12 months ended June 30, 2009.

**(c) Stock options**

On December 12, 2009, the shareholders of the Company approved an amendment to the Company's Employee Share Option Plan (the "Plan") whereby the maximum number of shares issuable was reduced to from 15% to 12% of the Company's outstanding and issued share capital. Consequently, the maximum number of shares issuable under the Plan at December 31, 2009 was reduced to 5,570,350.

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**9. SHAREHOLDERS' EQUITY (continued):**

During the six month period ended December 31, 2009, changes in the total share options outstanding were as follows:

|  |                  |
|--|------------------|
| Share options outstanding, beginning of period       | 4,127,127        |
| Granted  | 274,200          |
| Exercised  | (397,477)        |
| Forfeited  | (97,800)         |
| Expired  | (1,000)          |
| <b>Outstanding, end of period</b>                    | <b>3,905,050</b> |
| Weighted average exercise price at December 31, 2009 | \$ 4.90          |
| Weighted average term remaining at December 31, 2009 | 2.9              |
| Number of options exercisable at December 31, 2009   | 1,015,348        |
| Weighted average price of exercisable options        | \$ 4.42          |

**(d) Normal course issuer bid**

On November 6, 2009, Absolute received approval from the TSX for a Normal Course Issuer Bid (the "Bid") that enables Absolute to purchase and cancel up to 3,337,617 of its common shares. The Bid allows for the purchase on a daily basis of up to 20,475 shares per day until November 5, 2010, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. For the three and six months ended December 31, 2009, Absolute purchased 20,000 shares under the Bid for a total purchase price of \$101,250. All repurchased shares have been cancelled.

On repurchase of the shares, the difference between the purchase price and the average book value of the common shares is recorded in accumulated deficit. At December 31, 2009, this amounted to \$84,868 based on an average share capital book value on issuance of \$16,982.

**(e) Potentially dilutive shares**

For the three and six months ended December 31, 2009, the Company excluded 1,317,935 and 1,372,203 common shares, respectively, from diluted loss per share as their effect would have been anti-dilutive (fiscal 2009 – 1,300,472 and 1,744,068).

**10. SUPPLEMENTAL CASH FLOW INFORMATION**

|                  | <b>December 31,</b>  | <b>June 30,</b>      |
|------------------|----------------------|----------------------|
|                  | <b>2009</b>          | <b>2009</b>          |
| Cash             | \$ 6,449,877         | \$ 13,516,317        |
| Cash equivalents | \$ 25,476,408        | \$ 42,561,687        |
|                  | <b>\$ 31,926,285</b> | <b>\$ 56,078,004</b> |

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**10. SUPPLEMENTAL CASH FLOW INFORMATION (continued):**

|                   | <b>Three Months Ended December 31,</b> |             | <b>Six Months Ended December 31,</b> |             |
|-------------------|--|-------------|--------------------------------------|-------------|
|                   | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Income taxes paid | \$ 237,367                             | \$ 111,121  | \$ 237,367                           | \$ 111,121  |
| Interest paid     | \$ -                                   | \$ -        | \$ -                                 | \$ -        |

**Non-cash investing and financing activities**

|                                | <b>Three Months Ended December 31,</b> |             | <b>Six Months Ended December 31,</b> |             |
|--------------------------------|--|-------------|--------------------------------------|-------------|
|                                | <b>2009</b>                            | <b>2008</b> | <b>2009</b>                          | <b>2008</b> |
| Accrued purchase price payable | \$ 5,124,340                           | \$ -        | \$ 5,124,340                         | \$ -        |

**11. SEGMENTED INFORMATION**

The Company carries on business in the computer endpoint management and security 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.

|                          | <b>Three months ended December 31,</b> |                      | <b>Six months ended December 31,</b> |                      |
|--------------------------|--|----------------------|--------------------------------------|----------------------|
|                          | <b>2009</b>                            | <b>2008</b>          | <b>2009</b>                          | <b>2008</b>          |
| Revenue                  |  |                      |                                      |                      |
| United States            | \$ 14,749,229                          | \$ 12,211,228        | \$ 28,805,569                        | \$ 23,502,454        |
| Canada and International | 1,088,419                              | 916,213              | 2,079,137                            | 1,734,035            |
| Total                    | <b>\$ 15,837,648</b>                   | <b>\$ 13,127,441</b> | <b>\$ 30,884,706</b>                 | <b>\$ 25,236,489</b> |

|                                 | <b>December 31,</b>  | <b>June 30,</b>     |
|---------------------------------|----------------------|---------------------|
|                                 | <b>2009</b>          | <b>2009</b>         |
| Long Lived Assets               |                      |                     |
| Canada                          | \$ 19,030,505        | \$ 2,275,579        |
| United States and International | 739,817              | 496,471             |
| Total                           | <b>\$ 19,770,322</b> | <b>\$ 2,772,050</b> |