

Interim Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three months ended September 30, 2010 and 2009

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian dollars) (Unaudited)

	Notes	September 30, 2010	June 30, 2010
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 32,500,579	\$ 28,078,851
Short-term investments	(Note 2)	1,615,470	6,420,210
Accounts receivable, net of allowance for doubtful accounts of \$1,883,000 (2010 - \$1,935,000)		14,631,069	13,888,239
Prepaid expenses and other		1,070,999	1,149,428
Current portion of deferred contract costs		4,324,051	4,038,159
Current portion of future income tax assets	(Note 5)	10,151,179	9,904,709
		64,293,347	63,479,596
INVESTMENTS	(Note 2)	23,780,593	23,527,677
DEFERRED CONTRACT COSTS		3,810,940	3,744,051
PROPERTY AND EQUIPMENT		2,631,268	2,754,271
FUTURE INCOME TAX ASSETS	(Note 5)	10,565,513	10,308,983
INTANGIBLE ASSETS		19,092,414	20,477,801
		\$ 124,174,075	\$ 124,292,379
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 7,983,866	\$ 8,183,219
Income tax payable	(Note 5)	1,249,000	1,575,000
Current portion of acquisition payable		1,728,607	1,728,607
Current portion of accrued warranty		4,615,160	4,702,888
Current portion of deferred revenue, net	(Note 3)	54,726,795	52,411,595
		70,303,428	68,601,309
ACQUISITION PAYABLE		3,457,214	3,457,214
ACCRUED WARRANTY		4,434,173	4,518,461
DEFERRED REVENUE, NET	(Note 3)	52,176,346	50,346,988
		130,371,161	126,923,972
CONTINGENCIES	(Note 8)		
SHAREHOLDERS' DEFICIENCY			
Share Capital	(Note 4(b))	44,762,860	44,888,407
Contributed Surplus		28,971,001	28,393,491
Deficit		(79,930,947)	(75,913,491)
		(6,197,086)	(2,631,593)
		\$ 124,174,075	\$ 124,292,379

See accompanying notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

(signed) "John Livingston"
John Livingston, Director

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

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

	Notes	2010	2009
REVENUE		\$ 17,348,833	\$ 15,047,060
COST OF REVENUE		4,886,579	3,134,121
GROSS MARGIN		12,462,254	11,912,939
OPERATING EXPENSES			
Sales and marketing		9,280,440	8,169,768
Research and development		2,612,696	2,249,400
General and administration		2,077,232	1,916,999
Investment tax credits		(396,000)	(250,000)
Stock-based compensation	(Note 4(e))	663,537	586,461
		14,237,905	12,672,628
OPERATING LOSS		(1,775,651)	(759,689)
OTHER INCOME (EXPENSE)			
Interest income, net		188,840	157,707
Foreign exchange loss		(176,928)	(1,399,246)
Gain on investments	(Note 2)	565	135,570
		12,477	(1,105,969)
NET LOSS BEFORE INCOME TAXES		(1,763,174)	(1,865,658)
INCOME TAX RECOVERY (EXPENSE)	(Note 5)	433,000	(170,000)
NET LOSS AND COMPREHENSIVE LOSS		\$ (1,330,174)	\$ (2,035,658)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.03)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	(Note 4(f))	46,695,030	45,920,705

See accompanying notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars) (Unaudited)

	Share Capital				Total
	Number of Common shares	Amount	Contributed Surplus	Deficit	
BALANCE, JUNE 30, 2009	45,694,350	\$ 41,988,977	\$ 26,822,975	\$ (66,952,469)	\$ 1,859,483
Shares issued on options exercised	741,552	1,659,071	(259,911)	-	1,399,160
Shares issued under Employee Share Purchase Plan	231,188	786,895	-	-	786,895
Shares repurchased and cancelled under the Normal Course Issuer Bid	(238,000)	(202,086)	-	(807,141)	(1,009,227)
Shares issued on warrants exercised	400,000	655,550	(255,550)	-	400,000
Stock-based compensation expense recorded on Option and Purchase Plans	-	-	2,085,977	-	2,085,977
Net loss	-	-	-	(8,153,881)	(8,153,881)
BALANCE, JUNE 30, 2010	46,829,090	\$ 44,888,407	\$ 28,393,491	\$ (75,913,491)	\$ (2,631,593)
Shares issued on options exercised	100,750	241,576	(86,027)	-	155,549
Shares issued under Employee Share Purchase Plan	94,864	337,716	-	-	337,716
Shares repurchased and cancelled under the Normal Course Issuer Bid	(830,100)	(704,839)	-	(2,687,282)	(3,392,121)
Stock-based compensation expense recorded on Option and Purchase Plans	-	-	663,537	-	663,537
Net loss	-	-	-	(1,330,174)	(1,330,174)
BALANCE, SEPTEMBER 30, 2010	46,194,604	\$ 44,762,860	\$ 28,971,001	\$ (79,930,947)	\$ (6,197,086)

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Cash Flows
Three months ended September 30, 2010 and 2009
(Expressed in Canadian dollars) (Unaudited)

	Notes	2010	2009
OPERATING ACTIVITIES			
Net loss		\$ (1,330,174)	\$ (2,035,658)
Items not involving cash			
Amortization of property and equipment		390,006	302,638
Amortization of intangible assets		1,385,388	31,944
Stock-based compensation	(Note 4(e))	663,537	586,461
Future income taxes	(Note 5)	(503,000)	(1,540,000)
Gain on investments	(Note 2)	(565)	(135,570)
Change in non-cash working capital			
Accounts receivable		(742,830)	3,820,106
Prepaid expenses and other		78,429	(25,205)
Deferred contract costs		(352,781)	(167,169)
Accounts payable and accrued liabilities		(199,353)	(2,227,664)
Income tax payable	(Note 5)	(326,000)	1,460,000
Accrued warranty		(172,016)	468,676
Deferred revenue		4,144,560	3,771,752
CASH FROM OPERATING ACTIVITIES		3,035,201	4,310,311
INVESTING ACTIVITIES			
Purchase of property and equipment		(267,006)	(270,922)
Proceeds from maturities of short-term investments		5,185,355	7,306,458
Purchase of short-term investments		(380,050)	-
Purchase of investments		(252,916)	(20,108,654)
CASH FROM (USED IN) INVESTING ACTIVITIES		4,285,383	(13,073,118)
FINANCING ACTIVITIES			
Repurchase of common shares for cancellation	(Note 4(b))	(3,392,121)	-
Issuance of common shares	(Note 4(b))	493,265	852,222
CASH (USED IN) FROM FINANCING ACTIVITIES		(2,898,856)	852,222
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		4,421,728	(7,910,585)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		28,078,851	56,078,004
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 32,500,579	\$ 48,167,419

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 6)

See accompanying notes to the Interim Consolidated Financial Statements

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

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 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, 2010 audited consolidated financial statements.

(b) *Adoption of Future Accounting Standards*

In January 2009, the CICA issued Section 1582, "*Business Combinations*", Section 1601, "*Consolidated Financial Statements*", and Section 1602, "*Non-controlling Interests*". Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards. Section 1582 is applicable for any business combinations with acquisition dates on or after July 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. Section 1601 is applicable for the Company's interim and annual consolidated financial statements for its fiscal year beginning July 1, 2011. Early adoption of this Section is permitted. If the Company chooses to early adopt any one of these Sections, the other two sections must also be adopted at the same time. The Company does not expect the adoption of these standards will have a material impact on its consolidated financial statements.

In December 2009, the CICA issued Emerging Issues Committee Abstract ("EIC") 175, "*Multiple Deliverable Revenue Arrangements*", replacing EIC 142, "*Revenue Arrangements with Multiple Deliverables*". This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with ASC 985-605 (formerly Financial Accounting Standards Board Statement of Position 97-2), "*Software Revenue Recognition*" as amended by Accounting Standards Update 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

The accounting changes summarized in EIC 175 are effective for fiscal years beginning on or after January 1, 2011, with early adoption permitted. Adoption may either be on a prospective basis or by retrospective application. The Company does not believe the adoption of this standard will have a material impact on its consolidated financial statements.

(c) Comparative financial information

Certain prior period amounts have been reclassified in order to conform to the current period presentation. Specifically, certain costs previously allocated to cost of revenue are now reported in research and development.

2. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>September 30, 2010</u>	<u>June 30, 2010</u>
Term deposits	\$ 691,736	\$ 5,367,315
Investment grade securities	-	129,726
Marketable securities	<u>923,734</u>	<u>923,169</u>
	<u>\$ 1,615,470</u>	<u>\$ 6,420,210</u>

At June 30 and September 30, 2010, the Company's marketable securities had a cost of \$2,434,037, offset by an unrealized loss of \$1,510,303 (June 30, 2010 - \$1,510,868).

At June 30 and September 30, 2010, the Company's long-term investments are comprised entirely of investment grade securities.

For the three months ended September 30, 2010 and 2009, the Company's gain on investments was comprised entirely of an unrealized gain on marketable securities.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

3. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on sales contracts to invoiced sales contracts, revenue, and other adjustments for the three months ended September 30, 2010 and 2009:

	Three months ended September 30,	
	2010	2009
Balance, beginning of period	\$ 108,458,988	\$ 103,210,166
Sales contracts	21,869,068	19,229,280
Revenue recognized	(17,348,833)	(15,047,060)
Other adjustments	(261,553)	(335,239)
Balance, end of period	<u>\$ 112,717,670</u>	<u>\$ 107,057,147</u>

The following table provides a breakdown of the net deferred revenue balances at September 30, 2010 and June 30, 2010:

	September 30, 2010	June 30, 2010
Deferred revenue	\$ 112,717,670	\$ 108,458,988
Deferred warranty costs	(5,814,529)	(5,700,405)
	<u>106,903,141</u>	<u>102,758,583</u>
Less: current portion	(54,726,795)	(52,411,595)
	<u>\$ 52,176,346</u>	<u>\$ 50,346,988</u>

4. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value

20,000,000 preferred shares, Series A, voting, convertible, redeemable

(b) Issued and outstanding

During the three months ended September 30, 2010, the Company issued 100,750 common shares on exercise of employee stock options for total proceeds of \$155,549. An amount of \$86,027 related to the original fair value of the options was transferred from contributed surplus to common shares upon exercise.

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Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

During the three months ended September 30, 2010, the Company issued 94,864 common shares pursuant to its employee share purchase plan for total proceeds of \$337,716.

On November 6, 2009, the Company received approval from the TSX for a Normal Course Issuer Bid (the "Bid") that enables the Company 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.

Under the Bid, in the three months ended September 30, 2010, the Company repurchased 830,100 common shares for a total cost of \$3,392,121. On repurchase of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in accumulated deficit, amounting to \$2,687,282.

(c) *Stock Option Plan*

The Company's stock-based compensation plans include an Employee Stock Option Plan ("Option Plan").

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007 and 2009), which provided for a maximum of 12% of the number of common shares outstanding to be allocated to Option Plan participants. On this basis, at September 30, 2010, the maximum number of common shares available under the Option Plan was 5,543,352 (June 30, 2010 - 5,619,490), of which 935,027 remained available for grant thereunder.

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

The following table summarizes activity under the Option Plan for the three months ended September 30, 2010 and 2009:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, June 30, 2010	4,707,925	\$ 4.87	4,127,127	\$ 4.57
Granted	142,500	4.10	90,000	5.30
Exercised	(100,750)	1.55	(133,527)	1.78
Forfeited	(89,100)	4.98	(42,800)	6.30
Expired	(52,250)	9.04	-	-
Outstanding, September 30, 2010	4,608,325	\$ 4.87	4,040,800	\$ 4.66

The following table summarizes information about stock options issued and exercisable at September 30, 2010:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$0.30 - \$1.15	160,000	0.8	\$ 1.00	160,000	\$ 1.00
\$1.38 - \$1.95	155,200	1.2	1.56	155,200	1.56
\$2.28 - \$3.40	213,000	2.4	2.99	77,500	2.83
\$3.79 - \$4.28	1,741,675	3.0	3.99	430,962	3.99
\$4.48 - \$6.31	1,839,950	4.0	4.72	31,000	5.19
\$8.01 - \$19.17	498,500	1.8	11.58	300,372	11.44
	4,608,325	3.1	\$ 4.87	1,155,034	\$ 5.14

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the three months ended September 30, 2010 was \$237,036 (2009 - \$191,368). The weighted average grant date fair value of options granted during the three months ended September 30, 2010 was \$1.66 (2009 - \$2.13).

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

	<u>2010</u>	<u>2009</u>
Risk-free interest rate	1.00%	0.50%
Dividend yield	0%	0%
Expected life (in years)	3.0	3.0
Volatility	60%	60%

(d) Employee Share Purchase Plan

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

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the three months ended September 30, 2010, 94,864 common shares (2009 – 147,759 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$3.56 (2009 - \$2.81) per share.

At September 30, 2010, 1,189,957 common shares remained available for grant under the Purchase Plan.

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

(e) Stock-based compensation

The Company's stock-based compensation for the three months ended September 30, 2010 and 2009 was comprised as follows:

	<u>2010</u>	<u>2009</u>
Stock option plan	\$ 633,726	\$ 552,157
Employee share purchase plan	29,811	34,304
	<u>\$ 663,537</u>	<u>\$ 586,461</u>

The following table summarizes the allocation of stock-based compensation for the three months ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Cost of revenue	\$ 99,544	\$ 96,413
Sales and marketing	299,355	258,786
Research and development	175,238	153,665
General and administration	89,400	77,597
	<u>\$ 663,537</u>	<u>\$ 586,461</u>

(f) Potentially dilutive securities

For the three months ended September 30, 2010, 366,348 share purchase options (2009 - 1,600,878) were excluded from diluted loss per share as their effect would have been anti-dilutive.

5. 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 months ended September 30, 2010, the Company recorded a current tax expense of \$70,000 (2009 -\$1.7 million), and a future income tax recovery of \$503,000 (2009 - \$1.5

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

5. INCOME TAXES (continued)

million), based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2011. As of September 30, 2010, the Company had total net future tax assets of \$20.7 million (June 30, 2010 - \$20.2 million), primarily related to deferred revenue balances, and current income taxes payable of \$1.2 million (June 30, 2010 - \$1.6 million).

The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of future tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

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.

6. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>September 30, 2010</u>	<u>June 30, 2010</u>
Cash	\$ 11,393,508	\$ 10,667,886
Cash equivalents	21,107,071	17,410,965
	<u>\$ 32,500,579</u>	<u>\$ 28,078,851</u>

Other cash flow information

	<u>Three months ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Cash paid for income taxes	\$ -	\$ 237,367
Cash paid for interest	-	-

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three months ended September 30, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

7. SEGMENTED INFORMATION

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

	Three months ended September 30,	
	2010	2009
Revenue		
United States	\$ 15,959,624	\$ 14,056,342
Canada and rest of world	1,389,209	990,718
	\$ 17,348,833	\$ 15,047,060
	September 30, 2010	June 30, 2010
Long-lived assets		
Canada	\$ 20,975,820	\$ 22,459,028
United States and rest of world	747,862	773,044
	\$ 21,723,682	\$ 23,232,072

8. CONTINGENCIES

By virtue of its patent portfolio, from time to time the Company is involved in assertions and claims of patent infringement as both the initiating party and, from time to time, as a respondent to such claims. Currently, the Company is party to the following patent-related matter:

Absolute Software Corporation and Absolute Software, Inc. v. Stealth Signal, Inc., and Computer Security Products, Inc. in the United States District Court for the Southern District of Texas, Case No. H-05-1416. On July 21, 2010 the claim of patent infringement made against Stealth Signal, Inc. by the Company was dismissed and the counterclaim against the Company for patent infringement was also dismissed. Subsequently, both parties filed notices to appeal the dismissal of their respective claim and counterclaim. The parties are scheduled for a mediation hearing on November 17, 2010.

9. SUBSEQUENT EVENT

Subsequent to September 30, 2010, through November 1, 2010, the Company has repurchased an additional 1,244,400 common shares under its Normal Course Issuer Bid for a total cost of \$4,438,221.