

Interim Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and six months ended December 31, 2010 and 2009

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian dollars) (Unaudited)

	Notes	December 31, 2010	June 30, 2010
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 28,666,871	\$ 28,078,851
Short-term investments	(Note 2)	816,239	6,420,210
Accounts receivable, net of allowance for doubtful accounts of \$1,924,000 (2010 - \$1,935,000)		13,725,784	13,888,239
Prepaid expenses and other		1,179,598	1,149,428
Current portion of deferred contract costs		4,396,605	4,038,159
Current portion of future income tax assets	(Note 5)	10,420,679	9,904,709
		59,205,776	63,479,596
INVESTMENTS	(Note 2)	23,835,580	23,527,677
DEFERRED CONTRACT COSTS		3,696,403	3,744,051
PROPERTY AND EQUIPMENT		2,474,955	2,754,271
FUTURE INCOME TAX ASSETS	(Note 5)	10,846,013	10,308,983
INTANGIBLE ASSETS		17,860,180	20,477,801
		\$ 117,918,907	\$ 124,292,379
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 8,758,320	\$ 8,183,219
Income tax payable	(Note 5)	1,819,000	1,575,000
Current portion of acquisition payable		1,701,536	1,728,607
Current portion of accrued warranty		4,549,039	4,702,888
Current portion of deferred revenue, net	(Note 3)	55,195,628	52,411,595
		72,023,523	68,601,309
ACQUISITION PAYABLE		1,712,791	3,457,214
ACCRUED WARRANTY		4,370,646	4,518,461
DEFERRED REVENUE, NET	(Note 3)	51,758,722	50,346,988
		129,865,682	126,923,972
CONTINGENCIES	(Note 8)		
SHAREHOLDERS' DEFICIENCY			
Share Capital	(Note 4(b))	44,286,266	44,888,407
Contributed Surplus		29,993,604	28,393,491
Deficit		(86,226,645)	(75,913,491)
		(11,946,775)	(2,631,593)
		\$ 117,918,907	\$ 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 and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2010	2009	2010	2009
REVENUE		\$ 17,883,739	\$ 15,837,648	\$ 35,232,572	\$ 30,884,706
COST OF REVENUE		4,672,198	3,233,121	9,558,777	6,367,242
GROSS MARGIN		13,211,541	12,604,527	25,673,795	24,517,464
OPERATING EXPENSES					
Sales and marketing		8,108,240	9,152,200	17,388,680	17,321,967
Research and development		2,968,822	2,596,855	6,002,261	4,846,255
General and administration		2,232,735	1,945,225	3,889,264	3,862,223
Investment tax credits		(410,000)	(250,000)	(806,000)	(500,000)
Stock-based compensation	(Note 4(f))	1,060,962	582,217	1,724,499	1,168,678
		13,960,799	14,026,497	28,198,704	26,699,123
OPERATING LOSS		(749,258)	(1,421,970)	(2,524,909)	(2,181,659)
OTHER EXPENSE					
Interest income, net		153,820	195,152	342,661	352,860
Foreign exchange loss		(748,506)	(487,210)	(925,435)	(1,886,456)
Gain (loss) on investments		286,934	(282,898)	287,499	(147,329)
		(307,752)	(574,956)	(295,275)	(1,680,925)
NET LOSS BEFORE INCOME TAXES	(Note 5)	(1,057,010)	(1,996,926)	(2,820,184)	(3,862,584)
INCOME TAX (EXPENSE) RECOVERY		(430,000)	(280,000)	3,000	(450,000)
NET LOSS AND COMPREHENSIVE LOSS		\$ (1,487,010)	\$ (2,276,926)	\$ (2,817,184)	\$ (4,312,584)
BASIC AND DILUTED LOSS PER SHARE	(Note 4(g))	\$ (0.03)	\$ (0.05)	\$ (0.06)	\$ (0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		45,136,675	46,228,164	45,915,853	46,074,434

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	-	-	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	142,300	348,642	(124,386)	-	224,256
Shares issued under Employee Share Purchase Plan	94,864	337,716	-	-	337,716
Shares issued for acquisition payable	166,666	876,667	-	-	876,667
Shares repurchased and cancelled under the Normal Course Issuer Bid	(2,549,950)	(2,165,166)	-	(7,495,970)	(9,661,136)
Stock-based compensation expense	-	-	1,724,499	-	1,724,499
Net loss	-	-	-	(2,817,184)	(2,817,184)
BALANCE, DECEMBER 31, 2010	44,682,970	\$ 44,286,266	\$ 29,993,604	\$ (86,226,645)	\$ (11,946,775)

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Cash Flows
Three and six months ended December 31, 2010 and 2009
(Expressed in Canadian dollars) (Unaudited)

	Notes	Three months ended December 31,		Six months ended December 31,	
		2010	2009	2010	2009
OPERATING ACTIVITIES					
Net loss		\$ (1,487,410)	\$ (2,276,926)	\$ (2,817,184)	\$ (4,312,584)
Items not involving cash					
Amortization of property and equipment		402,581	334,527	792,587	637,165
Amortization of intangible assets		1,394,576	318,904	2,779,964	350,848
Stock-based compensation	(Note 4(f))	1,060,962	582,217	1,724,499	1,168,678
Future income taxes	(Note 5)	(550,000)	(480,000)	(1,053,000)	(2,020,000)
(Gain) loss on investments	(Note 2)	(286,934)	282,898	(287,499)	147,329
Unrealized foreign exchange loss (gain)		(54,405)	-	(54,405)	-
Non-cash interest expense		31,912	-	31,912	-
Change in non-cash working capital					
Accounts receivable		1,260,298	368,291	633,725	4,498,054
Prepaid expenses and other		(108,599)	(409,763)	(30,170)	(434,968)
Deferred contract costs		41,983	(68,245)	(310,798)	(235,414)
Accounts payable and accrued liabilities		951,959	2,138,969	810,735	50,144
Income tax payable	(Note 5)	570,000	510,000	244,000	1,970,000
Accrued warranty		(129,648)	32,487	(301,664)	501,163
Deferred revenue		51,209	444,721	4,195,769	4,216,474
CASH FROM OPERATING ACTIVITIES		3,148,884	1,778,080	6,358,471	6,536,889
INVESTING ACTIVITIES					
Purchase of property and equipment		(246,268)	(480,793)	(513,274)	(751,717)
Purchase of intangible assets		(162,342)	-	(162,342)	-
Acquisition payable		(872,333)	(10,254,256)	(872,333)	(10,254,256)
Proceeds from sales and maturities of short-term investments		1,183,631	5,006	6,368,986	7,311,464
Purchase of short-term investments		(97,466)	(7,420,699)	(477,516)	(7,420,699)
Purchase of investments		(54,987)	(152,898)	(307,903)	(20,261,552)
CASH (USED IN) FROM INVESTING ACTIVITIES		(249,765)	(18,303,640)	4,035,618	(31,376,760)
FINANCING ACTIVITIES					
Repurchase of common shares for cancellation	(Note 4(b))	(6,269,015)	(101,250)	(9,661,136)	(101,250)
Issuance of common shares	(Note 4(b))	68,707	545,401	561,971	1,397,623
CASH (USED IN) FROM FINANCING ACTIVITIES		(6,200,309)	444,151	(9,099,165)	1,296,373
FOREIGN EXCHANGE EFFECT ON CASH		(532,518)	(159,725)	(706,904)	(608,221)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(3,833,708)	(16,241,134)	588,020	(24,151,719)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		32,500,579	48,167,419	28,078,851	56,078,004
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 28,666,871	\$ 31,926,285	\$ 28,666,871	\$ 31,926,285

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 and six months ended December 31, 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 and six months ended December 31, 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.

In addition, the Company has reclassified an immaterial error in its consolidated statements of cash flows for the three and six months ended December 31, 2010 and 2009, related to the classification of the effect of foreign exchange rate changes on non-cash working capital, and cash and cash equivalents. The reclassification moved the foreign exchange impact from affected non-cash working capital balances to be presented as "Foreign Exchange Effect on Cash". As a result of this reclassification, there was no impact on previously reported net change in cash and cash equivalents, net loss, net loss per common share or financial position for any of the periods presented.

This reclassification had the following impact:

	Three months ended December 31, 2009	Six months ended December 31, 2009
Cash from operating activities		
As originally reported	\$ 1,618,355	\$ 5,928,668
As recast	\$ 1,778,080	\$ 6,536,889

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

2. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>December 31, 2010</u>	<u>June 30, 2010</u>
Term deposits	\$ 682,890	\$ 5,367,315
Investment grade securities	133,349	129,726
Marketable securities	-	923,169
	<u>\$ 816,239</u>	<u>\$ 6,420,210</u>

In the three and six months ended December 31, 2010, the Company disposed of its marketable securities for total proceeds of \$1,183,631. At the date of disposal, these marketable securities had a cost of \$2,434,037, offset by an unrealized loss of \$1,537,340 (June 30, 2010 - \$1,510,868). Accordingly, the Company recorded a net gain on sale of \$286,934 in the statement of operations.

At June 30 and December 31, 2010, the Company's long-term investments are comprised entirely of investment grade securities.

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 and six months ended December 31, 2010 and 2009:

	<u>Three months ended</u>		<u>Six months ended</u>	
	<u>December 31,</u>		<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance, beginning of period	\$ 112,717,670	\$ 107,057,147	\$ 108,458,988	\$ 103,210,166
Sales contracts	17,948,332	16,071,764	39,817,400	35,301,044
Acquired from LANrev	-	380,317	-	380,317
Revenue recognized	(17,883,739)	(15,837,648)	(35,232,572)	(30,884,706)
Other adjustments	(42,739)	(104,080)	(304,292)	(439,319)
Balance, end of period	<u>\$ 112,739,524</u>	<u>\$ 107,567,502</u>	<u>\$ 112,739,524</u>	<u>\$ 107,567,502</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

3. DEFERRED REVENUE (continued):

The following table provides a breakdown of the net deferred revenue balances at December 31, 2010 and June 30, 2010:

	<u>December 31, 2010</u>	<u>June 30, 2010</u>
Deferred revenue	\$ 112,739,524	\$ 108,458,988
Deferred warranty costs	<u>(5,785,174)</u>	<u>(5,700,405)</u>
	106,954,350	102,758,583
Less: current portion	<u>(55,195,628)</u>	<u>(52,411,595)</u>
	<u>\$ 51,758,722</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 and six months ended December 31, 2010, the Company issued 41,550 and 142,300 common shares, respectively, on exercise of employee stock options for total proceeds of \$68,707 and \$224,256. An amount of \$38,359 and \$124,386, respectively, was transferred from contributed surplus to common shares upon exercise, related to the original fair value of the options.

During the three and six months ended December 31, 2010, the Company issued 94,864 common shares pursuant to its employee share purchase plan for total proceeds of \$337,716.

On December 2, 2010, the Company issued 166,666 common shares with a value of \$876,667 from treasury in order to satisfy its obligations pursuant to the acquisition of LANrev.

On November 19, 2010, the Company received approval from the TSX for a Normal Course Issuer Bid that enables the Company to purchase and cancel up to 3,263,702 of its common shares. The Bid allows for the purchase on a daily basis of up to 13,171 common shares per day until November 18, 2011, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. Prior to November 19, 2010, the Company purchased and cancelled shares under a previously approved Normal Course Issuer Bid (together, the "Bids").

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

Under the Bids, in the three and six months ended December 31, 2010, the Company repurchased 1,719,850 and 2,549,950 common shares, respectively, for a total cost of \$6,269,515 and \$9,661,636. 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 \$4,808,688 and \$7,495,970 in the three and six months ended December 31, 2010.

(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 December 31, 2010, the maximum number of common shares available under the Option Plan was 5,361,956 (June 30, 2010 - 5,619,490), of which 801,881 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.

The following table summarizes activity under the Option Plan for the six months ended December 31, 2010 and 2009:

	2010		2009	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, June 30	4,707,925	\$ 4.87	4,127,127	\$ 4.57
Granted	256,500	4.10	274,200	5.49
Exercised	(142,300)	1.58	(397,477)	1.97
Forfeited	(159,800)	4.87	(97,800)	4.85
Expired	(102,250)	7.67	(1,000)	3.79
Outstanding, December 31	4,560,075	\$ 4.87	3,905,050	\$ 4.90

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

The following table summarizes information about stock options issued and exercisable at December 31, 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
\$0.74 - \$1.15	149,000	0.6	\$ 1.02	149,000	\$ 1.02
\$1.38 - \$1.95	133,000	1.0	1.57	133,000	1.57
\$2.28 - \$3.40	202,750	2.3	2.98	111,500	2.87
\$3.79 - \$4.28	1,814,625	2.8	4.00	454,387	3.98
\$4.48 - \$6.31	1,771,950	3.7	4.71	68,674	5.44
\$8.01 - \$19.17	488,750	1.6	11.52	296,662	11.43
	4,560,075	2.9	\$ 4.87	1,213,183	\$ 5.15

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the three and six months ended December 31, 2010 was \$190,562 and \$427,598 (2009 - \$412,809 and \$604,177). The weighted average grant date fair value of options granted during the three and six months ended December 31, 2010 was \$1.67 and \$1.66, respectively (2009 - \$2.24 and \$2.20).

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

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Risk-free interest rate	1.3%	0.5%	1.1%	0.5%
Dividend yield	0%	0%	0%	0%
Expected life (in years)	3.0	3.0	3.0	3.0
Volatility	60%	60%	60%	60%

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Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

(d) *Non-standard Options*

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

The total fair value of the Non-standard Options was \$1,033,067, with a weighted average grant date fair value of \$2.07, as measured at the date the employment agreements were entered into, as the terms and conditions of the grants were known at that time. The estimated fair value of the Non-standard Options was estimated by using the Black-Scholes option pricing model assuming no dividend yield, an expected life of three years, volatility of 60%, and a risk-free interest rate of 0.5%.

(e) *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 and six months ended December 31, 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 December 31, 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 and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

(f) *Stock-based compensation*

The Company's stock-based compensation for the three and six months ended December 31, 2010 and 2009 was comprised as follows:

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Stock option plan	\$ 637,960	\$ 551,067	\$ 1,271,686	\$ 1,103,224
Non-standard Options	373,052	-	373,052	-
Employee share purchase plan	49,950	31,150	79,761	65,454
	\$ 1,060,962	\$ 582,217	\$ 1,724,499	\$ 1,168,678

The following table summarizes the allocation of stock-based compensation for the three and six months ended December 31, 2010 and 2009:

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Cost of revenue	\$ 100,993	\$ 98,172	\$ 200,537	\$ 194,585
Sales and marketing	447,965	254,768	747,320	513,554
Research and development	418,841	155,334	594,079	308,999
General and Administration	93,163	74,944	182,563	151,541
	\$ 1,060,962	\$ 582,217	\$ 1,724,499	\$ 1,168,678

(g) *Potentially dilutive securities*

For the three and six months ended December 31, 2010, 237,578 and 255,458 share purchase options, respectively (2009 – 1,317,935 and 1,372,203) were excluded from diluted loss per share as their effect would have been anti-dilutive.

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Notes to the Interim Consolidated Financial Statements

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(Expressed in Canadian dollars) (Unaudited)

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 and six months ended December 31, 2010, the Company recorded a current tax expense of \$980,000 and \$1,050,000 (2009 – \$760,000 and \$2,470,000), and a future income tax recovery of \$550,000 and \$1,053,000 (2009 – \$480,000 and \$2,020,000), based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2011. As of December 31, 2010, the Company had total net future tax assets of \$21.3 million (June 30, 2010 - \$20.2 million), primarily related to deferred revenue balances, and current income taxes payable of \$1.8 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>December 31, 2010</u>	<u>June 30, 2010</u>
Cash	\$ 19,785,194	\$ 10,667,886
Cash equivalents	8,881,677	17,410,965
	<u>\$ 28,666,871</u>	<u>\$ 28,078,851</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

6. SUPPLEMENTAL CASH FLOW INFORMATION (continued):

Other cash flow information

	Three months ended December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Cash paid for income taxes	\$ 25,005	\$ 237,367	\$ 25,005	\$ 237,367
Cash paid for interest	-	-	-	-
<i>Non-cash investing and financing activities</i>				
Shares issued for acquisition payable	\$ 876,667	-	\$ 876,667	-
Accrued purchase price payable	-	\$ 5,185,822	-	\$ 5,185,822

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 December 31,		Six months ended December 31,	
	2010	2009	2010	2009
Revenue				
United States	\$ 16,188,787	\$ 14,749,229	\$ 32,148,411	\$ 28,805,569
Canada and rest of world	1,694,952	1,088,418	3,084,161	2,079,137
	\$ 17,883,739	\$ 15,837,648	\$ 35,232,572	\$ 30,884,706

	December 31, 2010	June 30, 2010
Long-lived assets		
Canada	\$ 19,596,632	\$ 22,459,028
United States and rest of world	738,503	773,044
	\$ 20,335,135	\$ 23,232,072

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Notes to the Interim Consolidated Financial Statements

Three and six months ended December 31, 2010 and 2009

(Expressed in Canadian dollars) (Unaudited)

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. A mediation hearing set for November 17, 2010 was declined by both parties due to costs and the distance between the parties' respective positions. Both parties continue to file briefs supporting their claims, and there are currently no hearings scheduled.

9. SUBSEQUENT EVENTS

Subsequent to December 31, 2010, through January 31, 2011, the Company has repurchased an additional 168,400 common shares under its Normal Course Issuer Bid for a total cost of \$625,956.

On January 31, 2011, 89,593 common shares were issued pursuant to the Purchase Plan.