

ABSOLUTE SOFTWARE CORPORATION (TSX: ABT)
First Quarter Fiscal 2012 Interim Report
Management's Discussion and Analysis
For the three months ended September 30, 2011
Dated: November 17, 2011

The following Management's Discussion and Analysis ("MD&A") is prepared in accordance with National Instrument 51-102F1, and should be read in conjunction with the Company's Fiscal 2011 Consolidated Financial Statements and accompanying notes. These documents, along with additional information about the Company, including the Annual Report and Annual Information Form, are available at www.absolute.com and www.sedar.com.

This MD&A contains certain forward-looking statements, which relate to future events or the Company's future performance, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall", "scheduled", and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company's control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this MD&A should not be unduly relied upon. These statements speak only as of the date of this MD&A or as of the date specified in the documents incorporated by reference into this MD&A.

This MD&A, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) a continuing need for laptop data protection, theft recovery services and computer lifecycle management solutions in difficult economic times; (b) the successful integration of acquired products and technologies; (c) a continuation in computer refresh/replacement cycles; (d) the attainment of certain sales and cash flow targets and company performance; (e) increased adoption, or attach, rates of the Company's lifecycle management, computer tracking, and computer theft recovery solutions; (f) the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners and successfully launching new products or features and adapting solutions to new platforms; (g) the ability of the Company to successfully compete in an increasingly competitive landscape; (h) continuation of embedded firmware support from its current and anticipated PC OEM partners; (i) the demand for its products continuing to increase; (j) stable currency valuations and a sufficiently stable and healthy global economic and business environment; (k) the ability of the Company to access and gain traction in international markets and that such markets are growing as anticipated; (l) increasing market demand for self-encrypting hard drives based on OPAL specifications; and (m) other expectations, intentions and plans contained in this document that are not historical fact.

The key assumptions underlying the aforementioned forward-looking statements are that: (a) the data security and endpoint lifecycle management markets are converging, and the Company will be able to capitalize on this convergence as a result of an expanded product and feature set; (b) worldwide computer and mobile device shipments will continue to grow, and the Company will benefit from this trend through increased sales as a result of its investments in global sales and marketing and PC OEM partnerships; (c) the Company's investments in future growth of the business will generate returns as the worldwide computer and mobile device markets grow; (d) the Company will be able to continue to add new products and features on a global scale; (e) self-encrypting hard drives will become a popular form of encryption and the OPAL specifications will become a popular standard for self-encrypting drives; and (f) the Company will expand and be able to benefit from its portfolio of intellectual property, including patents. Certain or all of the forgoing assumptions may prove to be incorrect which could negatively impact the Company's business and the anticipated results discussed herein.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other producers; the impact of general, economic conditions in Canada, the United States and overseas; industry conditions, changes in technology, changes in laws and regulations (including the new intellectual property and privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation; the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof; and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in this MD&A and the Company's Annual Information Form for the year ended June 30, 2011. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this MD&A are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

Change in reporting currency

Effective July 1, 2011, we changed our reporting currency from the Canadian dollar to the United States dollar. As a result of our transition to International Financial Reporting Standards (“IFRS”), we have determined that the U.S. dollar is the functional currency of the Company and the majority of its subsidiaries. We believe that changing our reporting currency to U.S. dollars will result in more relevant and reliable information for our financial statement users, and will more accurately reflect the results of our operations. For the year ended June 30, 2011 and for all prior periods, we presented our financial statements in Canadian dollars. The comparative figures disclosed in our financial statements for the three months ended September 30, 2011, and in this Management’s Discussion and Analysis, have been retrospectively recast to reflect the change in functional and reporting currencies to the U.S. dollar, as if the U.S. dollar had been used as the functional and reporting currency for all prior periods. All dollar figures are stated in U.S. dollars unless otherwise indicated.

Selected Quarterly Information

(in millions of USD, except percent and per share data)

	Q1 Fiscal 2012	Q1 Fiscal 2011
Sales Contracts ⁽¹⁾	\$ 25.3	\$ 21.1
% increase	20%	20%
Cash from Operating Activities ⁽¹⁾	\$ 5.5	\$ 3.4
Per Share (basic) ⁽¹⁾⁽²⁾	\$ 0.13	\$ 0.07
Per Share (diluted) ⁽¹⁾⁽²⁾	\$ 0.13	\$ 0.07
Revenue	\$ 18.2	\$ 16.3
% increase	12%	19%
Adjusted Operating Income (Loss) ⁽¹⁾	\$ 2.7	\$ (0.3)
% increase	nm	(129)%
Net (loss) income	\$ (1.9)	\$ 0.1
Per share (basic and diluted) ⁽²⁾	\$ (0.04)	\$ 0.00
Total assets	\$ 120.2	\$ 118.6
Cash, cash equivalents, and investments	\$ 56.3	\$ 56.3
Deferred Revenue	\$ 118.2	\$ 104.9

(1) Throughout this document, “Cash from Operating Activities” and “Basic or Diluted Cash from Operating Activities per Share” are used as a profitability measures. “Sales Contracts” (invoiced sales) is used as a measures of sales performance and as an indicator of future cash flows and revenue. Please refer to the “Non-IFRS Measures” and “Subscription Business Model” sections of this MD&A for further discussion on these measures.

(2) Per share figures for Q1-F2012 and Q1-F2011 reflect a reduced number of outstanding shares following the Company’s purchase and retirement of 3,797,020 common shares in fiscal 2011 and 683,000 common shares in the first quarter of fiscal 2012 under annual Normal Course Issuer Bids that commenced in November 2010 and 2009.

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

BUSINESS OVERVIEW:

Background

Absolute[®] Software Corporation (“Absolute”, the “Company”, or “we”), including its subsidiaries, is a provider of firmware-embedded endpoint security and management solutions. The Company was founded in 1993 with the vision that individuals and businesses should be able to manage, track, and protect their mobile computers regardless of their physical location. Today, our products include lifecycle management, mobile device management, theft management and data security solutions on more than five million computers worldwide and our customers include corporations, educational institutions, healthcare and government organizations, and individual consumers.

Our most popular offering is Computrace[®], which provides commercial customers with the ability to track and manage their computer and mobile device inventories on or off the corporate network, prove regulatory compliance and protect data through functions such as locating devices, remotely locking devices, deleting sensitive information, and recovering stolen devices. Our consumer version of this product is called Computrace LoJack[®] for Laptops.

In December 2009, we expanded our commercial offering with the purchase of Absolute Manage[®] (formerly LANrev). Absolute Manage is a computer and mobile device lifecycle management product that enables IT administrators to perform application and license management, automated patch management, asset inventory and similar essential systems management functions for their PC and Mac computers as well as iOS (iPhone and iPad) and Android devices from a single console.

The market opportunity for our products is driven largely by the increased adoption of mobile computers and other mobile devices such as tablet computers and smart phones. This opportunity arises in part from the fact that these devices are susceptible to loss or theft, and enterprises and consumers are concerned with the protection of sensitive or confidential data resident on those devices. They are also concerned about the recovery of the devices and the identification of individuals responsible for a theft so they can be prosecuted.

In addition, the increased adoption of mobile computing and the concurrent diversification of mobile device types and computing platforms within organizations have resulted in increased costs and management challenges for corporate IT departments. This has led to an opportunity for endpoint lifecycle management and tracking solutions designed to track and manage multiple mobile devices and platforms from a single management console.

Our Computrace technology is embedded at manufacture in the firmware of laptop, netbook, desktop and tablet computers from most of the world’s leading PC manufacturers (“PC OEMs”, see Partner Ecosystem below). As a result of this embedded position, Absolute’s Computrace and Absolute Manage products are highly tamper-resistant, or “persistent”. This means that these solutions are able to self-heal in the event that the software agent is disrupted. This is a key competitive advantage for mobile computing, as devices without the ability to self-heal are virtually impossible to

track when the software agent is disrupted. With sensitive or confidential data at risk on these devices and the stringent data privacy regulations and internal policies with which organizations must comply, we believe that our products have a distinct competitive advantage in the marketplace.

We also provide theft management and emergency response services that are unique in the market, enabling customers to take immediate action whenever they lose control of a device. These services are Absolute's flagship data and device security services, which are a significant part of our core value proposition and competitive advantage, and include: data delete, device freeze, persistent device messaging, investigative services, file retrieval, location identification and theft recovery. Importantly, the location and theft recovery services are managed by our recovery team, which includes former law enforcement professionals, who work in concert with current law enforcement personnel. We believe our approach is the only viable way to provide such services while also ensuring that privacy rights are protected.

In February 2011 we announced the general availability of Absolute Secure Drive to manage self-encrypting hard drives. We believe that an emerging market opportunity exists for the management of self-encrypting drives and that our persistent technology and PC OEM relationships will provide us with a competitive advantage. Self-encrypting drives are a relatively new technology, and therefore our success in this market will be dependent on the general market adoption of self-encrypting drives as a security solution, among other factors.

Globalization

In developing the market for our solutions, we have focused primarily on North America from where we have historically generated the majority of our annual sales. However, we believe that extending our market reach globally offers significant long-term growth opportunities, especially since international computer and mobile device shipments are expected to grow at much faster rates than those in North America. As a result, we are continuing to invest in our overseas operations.

We currently have offices in Vancouver, Canada; Austin, USA; Reading, UK; and Nuremburg, Germany. We also service additional geographies through our remote sales force and through our partner network. Our products and customer support services are available in 13 languages. We currently have sales distribution agreements with nine PC OEMs and a number of other in-country resellers in Europe ("EMEA"), Asia-Pacific and Latin America.

In the first quarter of fiscal 2012 ("F2012"), sales outside of North America grew 51% and represented 9% of our total sales, compared to 7% in the first quarter of fiscal 2011 ("F2011"). While our investments in our overseas operations have begun to drive growth, we believe that we are still in the formative stages of our international expansion, and therefore we expect that our international sales performance will be subject to variability.

Partner Ecosystem

Our partner ecosystem is an essential component of our business strategy. Our primary partners are PC OEMs who are both key collaborative technology partners and key distribution partners. We generate approximately 85% of our total sales through our PC OEM partners using various sales and marketing programs combined with co-engagement from our direct sales force to help identify and close sales opportunities.

We also have relationships with leading market influencers including infrastructure partners (for example, Intel®, Qualcomm®, and Microsoft®), telecom service providers, and other software vendors and resellers to complement our PC OEM efforts.

From a technology perspective, our PC OEM partners have adopted our Computrace technology as a standard and have embedded it in the firmware of laptop, netbook, desktop and tablet computers. This is an important collaboration for us, as the embedded support enhances the persistence (ability to survive unauthorized or unintentional removal attempts) of our software. This is a key value proposition and differentiator for Absolute. The persistence position was limited to devices with Windows operating systems until August 2011 when we announced the first Android device (the Lenovo Thinkpad tablet) to ship with persistence enabled.

Every year, our software ships embedded in the firmware of millions of computers worldwide. The following table lists the PC OEMs who are currently providing embedded support for Computrace:

Acer (since 2009)	Intel (Classmate Computer) (since 2009)
ASUS (since 2009)	Lenovo (since 2005)*
Dell (since 2005)	Motion Computing (since 2006)
Fujitsu (since 2006)*	NEC Personal Products (since 2010)
GammaTech (since 2008)	OQO, Inc. (since 2007)
General Dynamics Itronix (since 2008)	Panasonic (since 2006)
Getac (since 2008)	Samsung (since 2011)
HP (since 2005)*	Toshiba (since 2006)
IEI Technology (since 2009)	Xplore Technologies (since 2008)

* includes tablet computers

Our consumer solutions are also distributed through retail and online partners, such as Best Buy™ and Staples™, and via our website: www.lojackforlaptops.com.

Solutions and Technology

Computrace

Computrace is a security solution for data and device theft management and emergency services that enables customers to centrally secure and track their IT assets within a single web-based interface, the Absolute Customer Center. A Computrace module is embedded into the firmware of many computers at the factory by our OEM partners or can be installed on the hard drive of the computer or device by the manufacturer or end customer. Once the Computrace Agent is installed onto the hard drive, it activates the Computrace module embedded in the firmware and maintains daily contact with the

Absolute Monitoring Center (hosted by Absolute). If the Agent is tampered with, the module in the firmware rebuilds it, making it persistent, and ensuring Computrace is highly tamper-resistant. By logging into the Absolute Customer Center, IT administrators receive detailed data from each device, enabling them to monitor their devices (on or off the network), knowing where they are, who is using them, and what types of software and other applications reside on them. They can also perform security and event management (“SIEM”) functions, such as managing device security settings and establishing alerts for events when a corporate security policy is compromised. In the event of an emergency situation, customers can take protective measures, such as locating the device, remotely locking the device, deleting sensitive information, retrieving important files and supporting the recovery of stolen devices. Computrace is offered in several variations (for example, with or without managed theft recovery) and is available for laptop and desktop PCs and Macs. Our consumer version of this product is branded as Computrace LoJack for Laptops.

Absolute Manage

Absolute Manage is our computer lifecycle management technology. It allows IT administrators to manage their PC and Mac computers from within a single console. Absolute Manage includes an administrator server and individual agents that are installed onto each device. Agent calls occur throughout the day and provide data from each computer. IT administrators use this data to monitor and manage their computer inventories. They can implement actions directly from the administrator server interface to remotely perform actions such as locating, terminating, removing, or installing applications, licenses, patches and computer images, as well as other management functions such as power management and asset inventory.

Mobile Device Management and Computrace Mobile

Our mobile device solutions extend our Absolute Manage (“MDM”) and Computrace Mobile (“CTM”) solutions to alternative mobile devices such as tablets and smart phones. Our MDM solutions are available for devices with Apple iOS and Android operating systems, while CTM is available for devices with Android, Blackberry, Windows Mobile and Symbian operating systems. This is a rapidly growing segment of the IT management and security market. As one of the only vendors supporting Windows and Mac computers as well as these alternative devices, we believe our mobile solutions have a distinct competitive advantage in the market.

Absolute Secure Drive

Absolute Secure Drive enables IT managers to manage self-encrypting hard drives that meet OPAL (an industry standard released in 2009 by the Trusted Computing Group) and Drive Trust (a standard released by Seagate) specifications. With Absolute Secure Drive, IT administrators can easily set up and administer self-encrypting drives on each computer in their deployment from a single united console.

Future Products

In the coming year, we expect to continue adding new product features, particularly in the areas of endpoint lifecycle management, data protection, and mobile device support, and to extend current features to additional devices and platforms. We also

intend to advance the integration of our Computrace and Absolute Manage products to create a single management console from which our customers can view data and initiate actions from either system.

Deployment Models

Our Computrace and LoJack for Laptops products are primarily delivered in a Software as a Service (“SaaS”) model. The customer activates Computrace in the firmware or as software, and can immediately begin realizing the benefits. Our Absolute Manage product is an on-premise client-server solution that is designed for minimal server infrastructure requirements. Additionally, a small number of Computrace customers, whose internal policies prohibit their computers from accessing third-party servers, have purchased our Computrace product using an on-premise server model.

Patent Portfolio

We have a portfolio of 21 issued patents, and currently have 93 new patent applications in process. Several potential competitors have taken licenses to our patent portfolio to enable them to participate in the computer theft recovery space. The royalty revenue from these licensees is currently not material.

Due to the nature of our 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 material 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 on summary judgment. Both parties appealed the dismissal of their respective claim and counterclaim to the United States Court of Appeals for the Federal Circuit. On July 5, 2011, the Court of Appeals for the Federal Circuit conducted an oral hearing, addressing the parties' respective positions. On October 11, 2011, the Court of Appeals accepted the Company's appeal against Stealth and returned the Company's claim against Stealth to the trial court for trial. The Court of Appeals also dismissed the appeal of Stealth Signal, and as a result, Stealth's counterclaim has now been concluded in the Company's favour.

In order to establish and defend its proprietary rights and patent portfolio, the Company is also the initiating party in two patent-related matters. The Company's management believes Absolute will prevail in these cases, however, the potential outcome, timing, and impact on the Company's business and patent portfolio is not determinable at this time.

Competition

We have historically had few direct competitors in our services for mobile device protection and computer theft management and emergency services. Most competitors have been small operators with limited resources to widely commercialize their offerings. However, concurrent with the increased proliferation and adoption of smart

phones over the past two years, we have recently seen increased competition, primarily in the consumer market for mobile devices. Based on our proprietary technology, patent protection, managed theft recovery approach and PC OEM relationships, we believe that our products maintain a competitive advantage in the market place.

In the data and device security market, we also compete indirectly with data security companies that offer encryption solutions such as Safeboot (from McAfee), Utimaco (from Sophos), Checkpoint and Symantec, among others. Our Computrace solutions are generally purchased as a complement to all of these solutions.

Our endpoint lifecycle management solution, Absolute Manage, competes in a market where there is a greater level of established competition. In this market, we compete with products such as Altiris (from Symantec), LANDesk, Kace (from Dell), and BigFix (from IBM), among others. The primary advantages of our solution include our firmware persistent technology, cross-platform capability (PC, Mac, Apple iOS and Android support), and lower deployment and ongoing administrative and infrastructure costs as compared to solutions offered by our primary competitors.

In addition, there is another subset of competitors with MDM, our solution to allow organizations to manage their iOS and Android devices. There are a number of smaller competitors in this space, including Good Technology, Mobile Iron, Boxtone and Airwatch. The primary advantages of our solutions are that we allow organizations to manage desktop, laptop, tablet and smartphone devices from a single console, across multiple operating systems (Windows, Mac, iOS and Android) and with unparalleled reliability due to our persistence capability.

With the February 2011 launch of Absolute Secure Drive, we have entered the market for the management of self-encrypting hard drives. This is a relatively new and emerging market with few established competitors. We currently view Wave and WinMagic as competitors in this market, and expect other entrants to this market in the future.

Subscription Business Model

We sell the majority of our solutions under a subscription model in which customers acquire subscriptions to software-based services for a limited license term. From a financial perspective, this subscription model improves the predictability and visibility of revenue streams, enables recurring cash flows and is expected to maximize profitability over time.

However, the accounting treatment for the subscription model results in a significant deferral of revenue and profitability generated from pre-paid subscriptions, despite the cash flow it generates in the current reporting period. As a result, we believe that cash flow from operations is an important indicator of profitability and performance.

Subscriptions to Absolute's solutions are fully invoiced up-front for the purchase term (which varies from one to five years) on ordinary invoice and payment terms. Once received, payments are normally non-refundable. The amount invoiced is recorded at the foreign exchange rate in effect at the time of sale in deferred revenue on the statement of financial position, and is recognized ratably over the contract term.

We also sell a portion of our Absolute Manage licenses on a perpetual license basis. In these scenarios, customers are invoiced up-front for the cost of the license as well as an annual maintenance and support services fee. From an accounting perspective, perpetual licenses are generally recognized at the time of delivery (assuming other criteria are met), while annual maintenance and support fees are accounted for in the same manner as subscription license fees. During Q1-F2012, the perpetual licenses were not a significant portion of our overall sales; however we expect that the proportion of perpetual licenses may increase over time as sales of the Absolute Manage product increase.

We refer to our total invoiced sales in a period as our total “Sales Contracts”.

As our term Sales Contracts have traditionally averaged approximately 27 months in term, there is a significant lag between revenue recognition and the timing of the Sales Contract and our receipt of non-refundable cash flows. In general, only 15-20% of total Sales Contracts reported for any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of our operating expenses in each fiscal period are incurred to generate Sales Contracts for that period. As a result, in times of rapid growth in the business, IFRS earnings will often decrease or losses increase, while operating cash flow accelerates. Accordingly, we focus on Cash from Operating Activities as the key profitability metric for the Company. We believe this metric provides a meaningful evaluation of the future of the business, while revenue and operating income (loss) provide a lagging indication of performance.

Seasonality

Absolute’s strongest quarters tend to be the first and fourth quarter of each fiscal year, as related to our Sales Contracts. This is primarily due to strong activity in the education sector, one of our key markets, during those quarters. The first fiscal quarter has also historically benefited from increased consumer market activity related to students returning to school.

Non-IFRS Measures

Throughout this MD&A, we refer to a number of measures which we believe are meaningful in the assessment of the Company’s performance. All these metrics are non-standard measures under International Financial Reporting Standards (“IFRS”), and are unlikely to be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these items is meant to add to, and not replace, the discussion of financial results or cash flows from operations as determined in accordance with IFRS.

The purpose of these non-IFRS measures is to provide supplemental information that may prove useful to investors who wish to consider the impact of certain non-cash or uncontrollable items on the Company’s operating performance. Non-cash share-based compensation and amortization of acquired intangible assets are being excluded from the Company’s operating expenses because the decisions which gave rise to these expenses were not made to increase Sales Contracts in a particular period, but were

made for the Company's long-term benefit over multiple periods. While strategic decisions, such as those to issue share-based awards or to acquire intangible assets, are made to further the Company's long-term strategic objectives and do impact the Company's earnings under IFRS, these items affect multiple periods and management is not able to change or affect these items within any particular period. As such, supplementing IFRS disclosure with non-IFRS disclosure using the non-IFRS measures outlined below provides management with an additional view of operational performance by excluding expenses that are not directly related to performance in any particular period, and management uses both IFRS and non-IFRS measures when planning, monitoring, and evaluating the company's performance.

These measures, as well as their method of calculation or reconciliation to IFRS measures, are as follows:

a) Basic and diluted Cash from Operating Activities per share

As a result of the nature of our revenues (please refer to "Subscription Business Model" in this MD&A), we believe Cash from Operating Activities per share is a meaningful indicator of profitability per share. Cash from Operating Activities per share is calculated by dividing Cash from Operating Activities by the average number of shares outstanding for the period (basic), or the fully diluted number of shares using the treasury stock method (diluted).

b) Sales Contracts

See the "Subscription Business Model" section of this MD&A for a detailed discussion of why we believe Sales Contracts (also known as "bookings") provide a meaningful performance metric. Sales Contracts are a component of deferred revenue (see Note 8 of the Notes to the Interim Condensed Consolidated Financial Statements), and result from invoiced sales of our products and services.

c) Adjusted Operating Expenses

A number of significant non-cash expenses are reported in our Cost of Revenue and Operating Expenses. Management believes that analyzing these expenses exclusive of these non-cash items provides a useful measure of the cash invested in operating the business. Most significantly, these non-cash items include share-based compensation and amortization of acquired intangible assets.

Specifically, management adjusts for the following items in computing its Adjusted Operating Expenses:

- 1) *Share-based compensation:* Our compensation strategy includes the use of share-based awards to attract and retain key employees and executives. It is principally aimed at aligning their interests with those of our shareholders and at long-term employee retention, rather than to motivate or reward operational performance for any particular period. Thus, share-based compensation expense varies for reasons that are generally unrelated to operational decisions and performance in any particular period.
- 2) *Amortization of Acquired Intangible Assets:* We believe that amortization of acquired intangible assets, such as the amortization of acquired technology and

customer relationships, relate to items arising from pre-acquisition activities. These are costs that are determined at the time of an acquisition or when other intangible assets are acquired. While it is continually reviewed for potential impairment, amortization of the cost is a static expense, one that is typically not affected by operations during any particular period.

Please see the following for a reconciliation of our IFRS Cost of Revenue and Operating Expenses to the Adjusted Operating Expenses:

(in millions)	Three months ended September 30,					
	2011			2010		
	Per interim financial statements	Adjustments	Adjusted	Per interim financial statements	Adjustments	Adjusted
Cost of Revenue ("COR")	\$ 5.0	\$ (1.3) ⁽¹⁾	\$ 3.7	\$ 5.0	\$ (1.4) ⁽¹⁾	\$ 3.6
Total Operating Expenses	12.5	(0.7) ⁽²⁾	11.8	13.8	(0.8) ⁽²⁾	13.0
Total COR and Operating Expenses	\$ 17.5	\$ (2.0)	\$ 15.5	\$ 18.8	\$ (2.2)	\$ 16.6

Notes:

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per note 5 of the Interim Condensed Consolidated Financial Statements.
- (2) Share-based compensation per the Statement of Operations and Comprehensive Loss.

d) Adjusted Operating Income

Management believes that analyzing operating results exclusive of the significant non-cash items noted above provides a useful measure of the Company's performance. The non-cash items excluded in the determination of Adjusted Operating Income include share-based compensation and amortization of acquired intangible assets. See point (c) above for a discussion of these items.

The following tables provide a reconciliation of our IFRS Operating Income (Loss) to the Adjusted Operating Income:

(in millions)	Three months ended September 30,					
	2011			2010		
	Per consolidated financial statements	Adjustments	Adjusted	Per consolidated financial statements	Adjustments	Adjusted
Operating Income (Loss)	\$ 0.7	\$ 2.0 ⁽¹⁾⁽²⁾	\$ 2.7	\$ (2.4)	\$ 2.1 ⁽¹⁾⁽²⁾	\$ (0.3)

Notes:

- (1) Amortization of acquired intangible assets (excluding contract costs and brand) per note 5 of the Interim Condensed Consolidated Financial Statements.
- (2) Share-based compensation per the Statement of Operations and Comprehensive Loss.

FINANCIAL PERFORMANCE REVIEW AND ANALYSIS

Performance Overview

During Q1-F2012, we continued to focus on our corporate and consumer selling activities in North America and internationally and to broaden our product offerings targeted to the endpoint management and security market.

Operational highlights for Q1-F2012 included:

- Sales Contracts invoiced were \$25.3 million, representing a 20% increase from \$21.1 million in Q1-F2011.
- Commercial Sales Contracts increased 36% compared to Q1-F2011.
- Cash generated from operating activities was \$5.5 million, representing an increase of 60% compared to \$3.4 million in Q1-F2011.
- Adjusted Operating Income was \$2.7 million, a significant improvement from an Adjusted Operating Loss of \$0.3 million in Q1-F2011.
- International sales increased 51% to 9% of total Sales Contracts, compared to 7% in Q1-F2011.
- Announced the integration of Computrace[®] persistence technology into the firmware of the Lenovo ThinkPad Tablet.
- Launched support for Mac OS X Lion.
- LoJack for Laptops named Editors' Choice by PC Magazine.
- Repurchased 683,000 common shares in the quarter under the Company's Normal Course Issuer Bid for a total cost of \$2.8 million.

We believe that our improved financial performance in Q1-F2012 reflects a combination of successful execution of our sales and product strategy, improved general economic conditions, and our continuing efforts to improve internal productivity and to optimize our corporate cost structure.

Sales Contracts

In the first quarter of fiscal 2012, Sales Contracts were \$25.3 million, representing a 20% increase compared to \$21.1 million in Q1-F2011. The increase from Q1-F2011 was due to a 36% increase in commercial sales, which was partially offset by a 44% decrease in consumer sales.

The following table shows Sales Contracts by commercial and consumer customers:

(in Millions)	Q1 Fiscal 2012	Q1 Fiscal 2011
Commercial Sales		
Theft recovery products ⁽¹⁾	\$ 17.1	\$ 14.5
Non-theft recovery products ⁽²⁾	5.8	2.4
Total Commercial Sales	22.9	16.9
Consumer Sales	2.4	4.2
Total Sales Contracts	\$ 25.3	\$ 21.1

(1) **“Theft recovery products”** are defined as Computrace products that include a theft recovery component.

(2) **“Non-theft recovery products”** are defined as our Absolute Manage and Absolute Secure Drive products, as well as Computrace products that do not include a theft recovery component (for example, Absolute Track and Computrace Data Delete).

Commercial Customer Sales Performance:

Our commercial product line consists of sales of our Computrace, Absolute Manage, Computrace Mobile, Absolute Manage Mobile Device Management and Absolute Secure Drive product suites. We sell these products and related services into four primary market verticals: corporate, education, government, and health care. Our primary sales channels for this business are our PC OEM partners, as well as a number of distributors and value-added resellers.

Invoiced sales to commercial customers increased 36% in Q1-F2012 compared to Q1-F2011. This growth reflects strong year-over-year sales increases in all of our primary commercial market verticals. We believe that the overall growth was influenced by a number of factors, including : we have experienced sales productivity gains as we begin to realize the benefits from the expansion of our sales and marketing teams over the past two years; our expansion into the lifecycle management market with Absolute Manage has added a second core product line; the growing market for mobile device management solutions has provided a new source for lead generation that has created increased opportunities for our core offerings; and our efforts to expand geographically outside North America have proven that a viable global opportunity exists for our products. While these factors aligned to produce strong growth in our commercial product line in Q1-F2012, there can be no assurance that these trends will continue into future quarters.

Theft Recovery Products: In Q1-F2012, commercial Sales Contracts from our theft recovery product line grew 18% over Q1-F2011, as market demand for our unique theft

recovery and theft management services remains strong. This product line benefits from strong renewals within our existing customer base, particularly as computer refresh cycles remain strong. In addition, demand for these solutions appears to be increasing as a result of increased market awareness about the risks associated with the loss of mobile devices.

Non-Theft Recovery Products: Commercial Sales Contracts for our non-theft recovery products grew 142% over Q1-F2011, as we increased sales of our Absolute Manage product to existing Computrace customers and to new customers, and we experienced strong growth in sales of our persistent data protection asset tracking products. For Q1-F2012, our non-theft recovery products represented 25% of commercial Sales Contracts, compared to 14% in the comparable prior year period.

Consumer Sales Performance:

Our consumer business consists of sales of our consumer-branded product suite, Computrace LoJack for Laptops. Our primary sales channels for these products include our PC OEM partners, as well as other distribution channels such as online and traditional retailers. Some of our PC OEM partners bundle our solutions with new PC purchases, which has formed the largest portion of our consumer product sales in prior years, and which has become a less significant portion of our business as we continue to diversify into other higher margin programs. Most renewal business is completed directly with our end customers.

Consumer sales in Q1-F2012 decreased 44% from Q1-F2011, primarily due to a planned strategy to unwind a low margin high volume PC OEM bundle program. Sales outside of this bundle program, which consist of OEM, retail and online subscription sales, decreased 10% to \$2.0 million. This was primarily due to an overall sluggish consumer back-to-school season, combined with reduced OEM sales following HP's announcement to divest its PC business.

Revenue

Revenue for Q1-F2012 increased 12% to \$18.2 million, compared to \$16.3 million in the comparative prior year period. A majority of our revenue is derived from the amortization of Sales Contracts through the prior year's deferred revenue balance. As the average contract life of Sales Contracts averages approximately 27 months, typically only 15-20% of new and renewal Sales Contracts reported for any given fiscal year are included in revenue for that particular year. The remainder is included in deferred revenue on the statement of financial position. As we increase the relative proportion of perpetual versus term license sales with our Absolute Manage product, we expect that a greater portion of Sales Contracts will be recognized as revenue in the same year as the year the Sales Contract is concluded. See the "Subscription Business Model" section of this MD&A for further discussion, and the table below for a breakdown of the revenue components:

(in millions)	Q1 Fiscal 2012	Q1 Fiscal 2011
Revenue recognized from:		
Prior period Deferred Revenue	\$ 16.7	\$ 15.2
Current period Sales Contracts	1.5	1.1
Total	\$ 18.2	\$ 16.3
Percent of revenue from current period Sales Contracts	8%	7%

Adjusted Operating Expenses⁽¹⁾

(Millions of dollars)

	Q1 Fiscal 2012	Q1 Fiscal 2011	Percentage increase
Cost of revenue (“COR”) ⁽¹⁾	\$ 3.7	\$ 3.6	2%
Sales and marketing (“S&M”)	7.8	8.9	(12)%
Research and development (“R&D”)	2.8	2.9	(4)%
General and administration (“G&A”)	1.8	1.6	16%
Investment tax credits (“ITC”)	(0.6)	(0.4)	50%
Total COR and operating expenses⁽¹⁾	\$ 15.5	\$ 16.6	(7)%
Number of employees at September 30	334	349	(4)%

ADJUSTMENTS:

- (1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of these adjusted expenses to those in the Interim Condensed Consolidated Financial Statements.

Adjusted Operating Expenses as a Percentage of Sales Contracts⁽¹⁾

As discussed in the “Subscription Business Model” section of this MD&A, a large percentage of total adjusted operating expenses costs relate to efforts to generate Sales Contracts in the same and future periods. Therefore, management focuses on Adjusted Operating Expenses to measure the Company’s operating efficiency and effectiveness. In Q1-F2012, Adjusted Operating Expenses were 60% of Sales Contracts, a decrease from 79% in Q1-F2011.

(percentage of Sales Contracts)

	Q1 Fiscal 2012	Q1 Fiscal 2011
Cost of revenue (“COR”) ⁽¹⁾	14%	17%
Sales and marketing (“S&M”)	30%	42%
Research and development (“R&D”)	11%	14%
General and administration (“G&A”)	7%	7%
Investment tax credits (“ITC”)	(2%)	(2%)
Total COR and operating expenses⁽¹⁾	60%	79%

ADJUSTMENTS:

- (1) Please refer to the Non-IFRS Measures section of this MD&A for a reconciliation of these adjusted expenses to those in the Interim Condensed Consolidated Financial Statements.

In Q1-F2012, we continued to focus on cost management and productivity improvements. Total Adjusted Operating Expenses decreased 7% in Q1-F2012 compared to Q1-F2011, while Sales Contracts grew 20%. As a result, our Adjusted Operating Expenses as a percentage of Sales Contracts improved dramatically from Q1-F2011.

Cost of Revenue and Gross Margin

Cost of revenue is comprised of customer support, training and theft recovery activities as well as product packaging, shipping and service guarantee costs. These costs increased marginally in Q1-F2012 as compared to the prior period, primarily as a result of slightly higher costs in technology infrastructure and support outsourcing, offset by lower staff-related expenses. We exited Q1-F2012 with a headcount of 82 in these areas, as compared to 90 at September 30, 2010 and 82 at June 30, 2011.

Gross margin in Q1-F2012 was 72% compared to 69% in the comparative period. This increase was primarily the result of increased revenues outpacing the increase in cost of revenue. Excluding the amortization of acquired intangibles, gross margin was 80% in Q1-F2012 compared to 78% in Q1-F2011.

Sales and Marketing

S&M expenses decreased in Q1-F2012 by 12% to \$7.8 million from \$8.9 million in Q1-F2011. As a percent of Sales Contracts, S&M expenses were 30% for Q1-F2012, as compared to 42% Q1-F2011. This decrease was primarily a result of the reduction of certain partner and organic marketing programs in the current quarter, which was partially offset by increased personnel related costs in our direct sales force (primarily related to amortization of deferred commission intangible assets and bonus accruals). Amortization of the deferred commission portion of intangible assets increased over the prior year as a result of the strength of our sales performance and higher commissions paid over the past 5 quarters. We exited Q1-F2012 with a headcount of 137 in sales and marketing, as compared to 139 at September 30, 2010 and 140 at June 30, 2011.

We undertake a number of general sales and marketing initiatives, including: participation in tradeshow and partner events; market development programs with partners; public and industry analyst relations; and advertising expenditures. These expenditures are incurred to increase awareness with both partners and customers, drive coverage with industry analysts and establish Absolute's leadership position globally.

Research and Development

Research and development expenditures decreased moderately to \$2.8 million in Q1-F2012, as compared to \$2.9 million in Q1-F2011. R&D expenses were lower as a percentage of Sales Contracts at 11% in Q1-F2012, down from 14% in Q1-F2011. Our salary and headcount related expenses were similar to the prior year period as the average headcount was similar, in spite of the fact that the period-ending headcount was lower in the current year period. We exited Q1-F2012 with a headcount of 85 in research and development, as compared to 94 at September 30, 2010 and 84 at June 30, 2011.

Research and development expenses consist primarily of salaries and related expenses for our research and development staff, outsourcing costs, and allocated overhead. We continue to focus our research and development efforts on adding new features and services, increasing product functionality and enhancing the ease of use of our products and services.

General and Administration

General and administration expenses in Q1-F2012 increased 16% from the comparative period, to \$1.8 million from \$1.6 million. This increase was primarily due to increases in headcount and related expenses, as we have expanded our human resources and order processing infrastructure as the Company's subscriber base has grown. We exited F2011 with a headcount of 30 in general and administration, as compared to 25 at September 30, 2010 and 31 at June 30, 2011.

General and administration expenses consist of salaries and related expenses for finance and accounting, human resources personnel, bad debt expenses, legal costs, professional fees, other corporate expenses and allocated overhead.

Investment Tax Credits

ITCs consist of amounts credited to the Company in respect of eligible Canadian Scientific Research and Development expenditures. ITC recovery amounted to \$0.6 million in Q1-F2012, up from \$0.4 million in the comparative period.

Operating Income (Loss)

Absolute generated Adjusted Operating Income of \$2.7 million in Q1-F2012 as compared to an Adjusted Operating Loss of \$0.3 million in F2010. Absolute generated IFRS operating income of \$0.7 million in Q1-F2012, compared to an operating loss of \$2.4 million in Q1-F2011.

The improved adjusted and IFRS operating results in the current period are the result of an increase in revenues of \$1.9 million, and reductions in operating costs, most notably the decrease in sales and marketing expenses as noted above.

Other Income and Expenses

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are primarily invested in money market funds and investment grade bonds. In Q1-F2012, interest income was lower than Q1-F2011 at \$146,000 as compared to \$182,000, primarily as a result of lower interest rates available as our long term investments mature.

Other expenses also include foreign exchange gains and losses incurred primarily on the translation of Canadian dollar cash, receivable and liability balances. Canadian dollar denominated assets currently exceed liabilities, as we maintain significant balances in Canadian dollar denominated investments. This results in foreign exchange losses (gains) in periods where the U.S. dollar appreciates (declines) relative to the Canadian dollar. In Q1-F2012, the foreign exchange loss was \$1.9 million, as compared to a foreign exchange gain of \$1.6 million in the comparative period. The loss in the current period is primarily a result of the devaluation of the Canadian dollar compared to the U.S. dollar in the quarter.

Income Taxes

Our provision for income taxes is based on the application of our expected overall tax rates for the year ended June 30, 2012 to the results from our quarterly operations.

In Q1-F2012, we recorded current income tax expense of \$575,000 and a future income tax expense of \$265,000. In Q1-F2011, we recorded a current tax expense of \$67,000 and a future income tax recovery of \$733,000. In both periods, our current tax expense was offset by Scientific Research and Development Investment Tax Credits which will be claimed, and are presented as a reduction of operating expenses. In Q1-F2012, our deferred income tax expense is primarily attributable to the impact of non-deductible foreign exchange losses, as well the impact of foreign exchange on our existing Canadian tax assets. This deferred tax expense is offset by the benefit of expected tax losses in our U.S. operations. In Q1-F2011, the deferred income tax recovery was primarily attributable to foreign exchange gains on our Canadian tax assets.

Net Loss

The Company experienced a net loss in Q1-F2012 of \$1.9 million, as compared to net income of \$0.1 million in Q1-F2011. The current period net loss reflects the net impact of those factors discussed above with the changes in the operating and other income, and income tax expense.

The Company earned net income adjusted for Adjusted Operating Expenses of \$0.1 million in Q1-F2012, compared to \$2.2 million in Q1-F2011. The primary reason for this reduction is the improvement in the adjusted operating loss as noted above, offset by the negative variance in foreign exchange losses, and the changes in our net income tax expense and recovery.

Cash from Operating Activities

In Q1-F2012, we recorded Cash from Operating Activities of \$5.5 million, an increase of 60% from \$3.4 million in Q1-F2011. The improved performance in the current year is the result of increases in Sales Contracts recorded in the current quarter while Adjusted Operating Expenses have decreased from the comparative period.

Liquidity and Capital Resources

Absolute is in a strong financial position, with no debt and the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At September 30, 2011, Absolute's cash, cash equivalents and investments were \$56.3 million, compared to \$55.7 million at June 30, 2011. The Company's cash and investment position has improved on operating cash flows and proceeds from stock option exercises and our employee share purchase plan, less our cash outlay of \$2.8 million related to our share buyback. Based on current sales and investment plans, management believes that the Company has sufficient capital resources to meet its growth and operating requirements.

The Company has no material individual capital expenditure commitments for fiscal

2012. Given our strong cash and investment balances and operating cash flow, at this time management does not believe we require any additional capital resources.

Accounts receivable

Accounts receivable balances increased to \$18.8 million at September 30, 2011 (74% of Q1-F2012 Sales Contracts) from \$16.2 million at June 30, 2011 (71% of Q4-F2011 Sales Contracts). This increase is primarily due to higher Sales Contracts recorded in Q1-F2012.

At September 30, 2011, 17% of the Company's accounts receivable balance was over 90 days past due as compared to 20% at June 30, 2011. At September 30, 2011, accounts receivable included three PC OEM and reseller partners that represented more than 10% of receivables, with at 29%, 21%, and 13% respectively. At June 30, 2011, the same partners comprised 29%, 18%, and 11%, respectively, of our total accounts receivable.

Accrued warranty

Accrued warranty is related to a service guarantee with certain of our products. The accrued warranty remained relatively unchanged at \$0.9 million at September 30, 2011, compared to \$0.9 million at June 30, 2011. Each period, management evaluates our guarantee payment experience and considers whether changes are required to the estimated warranty provision.

Deferred revenue

Deferred revenue was \$118.2 million at September 30, 2011, compared to \$111.2 million at June 30, 2011, an increase of 6%. Deferred revenue is comprised of the unamortized portion of deferred revenue from Sales Contracts, which is amortized to revenue over time.

The scheduled recognition of deferred revenue is as follows:

(in millions)	F2012	F2013	F2014	F2015	F2016	F2017	Total
Revenue to be recognized	\$46.5	\$41.0	\$22.6	\$6.3	\$1.7	\$0.1	\$118.2

Future income tax assets and current taxes payable

At September 30, 2011, we had no current taxes payable as our current tax expense is offset by our expected claims for Scientific Research and Expenditure Investment Tax Credits ("ITC"s).

At September 30, 2011, we had total future income tax assets of \$20.6 million, which are primarily attributable to the future benefit of deferred revenue balances and operating loss carryforwards in our U.S. operations. Management believes these future income tax assets are more likely than not to be realized.

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.

In assessing the valuation of future income tax assets, management considers whether it

is more likely than not that some portion or all of the future income tax assets will be realized. The ultimate realization of future income tax assets is dependent upon the generation of future taxable income during the years in which the temporary differences are deductible. To the extent that management believes that the realization of the future income tax assets does not meet the more likely than not realization criteria, a valuation allowance is recorded against the future tax assets.

Accounting Changes Adopted in F2012

Basis of preparation and adoption of IFRS

We prepare our interim condensed consolidated financial statements in accordance with the Handbook of The Canadian Institute of Chartered Accountants. In 2010, this Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, we have commenced reporting on this basis in our Q1-F2012 interim condensed consolidated financial statements. Our basis of presentation and accounting policies are described in detail in notes 1, 2, and 16 of our interim condensed consolidated financial statements.

Quarterly Operating Data

(in millions except per share data)	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10 ⁽¹⁾	Q3-10 ⁽¹⁾	Q2-10 ⁽¹⁾
Sales Contracts (in USD) ⁽²⁾	\$25.3	\$22.8	\$17.5	\$17.7	\$21.1	\$18.8	\$14.5	\$15.2
Revenue	18.2	18.0	16.9	16.8	16.3	16.6	16.6	15.8
Net income (loss) adjusted for Adjusted Operating Expenses ⁽²⁾⁽³⁾	0.1	3.2	3.6 ⁽⁴⁾	2.1	2.2	(0.8)	1.9 ⁽⁶⁾	(0.6)
Net (Loss) Income	(1.9)	1.3	1.6	(0.8)	0.1	(3.8) ⁽⁵⁾	(0.0)	(2.3)
Basic and diluted (loss) income per share	(0.04)	0.03	0.04	(0.02)	0.00	(0.08)	(0.00)	(0.05)
Cash from Operating Activities	5.5	3.1	3.0	3.2	3.4	0.2	0.7	(5.6)
Operating cash per share (basic)	0.13	0.07	0.07	0.07	0.07	0.00	0.01	(0.12)

(1) Fiscal 2010 quarterly operating data was determined in accordance with Canadian GAAP, and is presented in Canadian dollars (with the exception of Sales Contracts). Fiscal 2011 and 2012 data was determined in accordance with IFRS and is presented in U.S. dollars. As a result, readers are cautioned that Fiscal 2010 data is not comparable to the amounts reported for Fiscal 2011 and 2012. This data is provided for informational purposes only.

(2) Please refer to “Seasonality” section of this MD&A.

(3) Please refer to the “Non-IFRS Measures” section of this MD&A.

(4) Q3-11 results included the impact of a \$2.0 million ITC recovery.

(5) Q4-10 results included the impact of a \$2.1 million income tax expense.

(6) Q3-10 results included the impact of a \$1.1 million positive adjustment to warranty accrual.

Shareholders' Deficiency and Outstanding Share Data

At September 30, 2011, Absolute had a shareholders' deficiency of \$9.2 million. In evaluating shareholders' deficiency, management believes it is important to consider the \$118.2 million of deferred revenue carried on the statement of financial position. This amount represents prepaid (or due to be paid in full on payment terms) and non-refundable revenue, on which management expects to generate high margins when recognized in income, as much of the associated contract costs are already included in the operating deficit. In addition, any common shares repurchased as part of our Normal Course Issuer Bids are recorded at an historical per share average value, and the difference between these amounts and the amount paid is recorded as part of deficit.

The Company's common shares trade on the TSX (TSX: ABT), and at September 30, 2011 the Company had 43,176,250 (November 17, 2011 – 43,116,750) fully issued and outstanding common shares. The following rights to receive common shares are issued and outstanding at September 30, 2011:

- Employee Share Option Plan: 4,506,601 (November 17, 2011 – 4,576,601) common stock options granted and outstanding. The options have a weighted average exercise price of \$4.56 per share, and a weighted average term to expiry of 2.7 years. There were no options granted in Q1-F2012.
- Employee Share Purchase Plan: Under the Plan, employees may purchase treasury shares at a 15% discount from market during two discrete six month offering periods each year. A total of two million shares have been reserved for grant under the Plan, of which 993,668 have been issued as at September 30, 2011 (November 17, 2011 – 993,668).
- Acquisition of LANrev: Pursuant to the terms of the LANrev purchase agreement, 333,334 common shares are to be issued to the selling shareholders prior to June 30, 2013.

Corporate Developments

None.

Critical Accounting Policies and Estimates

Management considers the Company's accounting for Sales Contracts, intangible assets (relating to deferred contract costs), warranty accruals, and deferred taxes to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Sales Contracts represent invoiced sales for subscriptions to Absolute's services and software that are included in deferred revenue and amortized to revenue ratably over the contract term, commencing in the month after sale. A majority of Absolute's Sales Contracts are transacted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders come in various forms from reseller partners. Absolute ships the software if applicable, commences the subscription term, and invoices the reseller and reports this as a Sales Contract for the applicable period. Accordingly, Absolute relies upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns and/or reversals is

kept to a minimum. These Sales Contracts are recorded as a receivable and deferred revenue item at period end (and not included in revenue at the time), and no estimates for returns, bad debts and reversals are made until such time as subsequent evidence suggests such an estimate is required.

Deferred contract costs represent expenses that are generated or incurred at the start of each service subscription (or Sales Contract) and are primarily comprised of prepaid employee sales commissions. These items are capitalized on the statement of financial position as a portion of intangible assets, amortized into sales and marketing expense ratably over the contract term. Management estimates the benefit period of deferred costs to be equivalent to the contract term of the Sales Contract to which the expense relates. If management's estimate of the future value of such costs should change it could result in a significant write-down in the value of this deferred asset.

Warranty accruals require management estimates of the amount of warranty claims that will be paid related to the number of thefts, both reported and unreported to the Company, at each period end. Accrual estimates are established based on Absolute's experience with recovery rates and timeframes associated with theft reporting, and are reviewed for reasonableness based on actual experience on a regular basis. However, actual experience will likely vary and may require a change in the estimated liability. Should these estimates change, they may require changes to the amount of warranty expense in future periods, in addition to a change in the warranty accrual. Costs of servicing the warranty liability are expensed as period costs in the statement of operations.

The Company has recognized deferred tax assets on its statement of financial position. Each reporting period, management assesses the likelihood of realizing deferred tax assets. Where management considers that it is more likely than not that some portion or all of the future tax assets will be realized, the estimated realizable value of the future tax asset is recognized on the statement of financial position. The net income or loss after income taxes can vary widely in periods where tax assets are recognized, and such variances could result from a material write-down or increase in the estimated value of the Company's deferred tax assets.

Off Balance Sheet Arrangements

The Company has not entered into any off balance sheet arrangements other than standard office lease agreements.

Related Party Transactions

None.

Subsequent Events

Subsequent to September 30, 2011, through November 17, 2011, the Company has repurchased an additional 59,500 common shares under its Normal Course Issuer Bid for a total cost of \$235,636.

Recent Accounting Pronouncements

The IASB has issued the following standards, which have not yet been adopted by the Company. Each of the new standards is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its consolidated interim financial statements or whether to early adopt any of the new requirements.

The following is a description of the new standards:

IFRS 9 – “Financial Instruments” (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 Financial Instruments – Recognition and measurement for debt instruments, with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income (loss). Where such equity instruments are measured at fair value through other comprehensive income (loss), dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income (loss) indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income (loss).

The Company has not yet assessed the impact of the adoption of IFRS 9 on its results from operations or its financial position.

IFRS 10 – “Consolidation” (“IFRS 10”)

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 “Consolidation—Special Purpose Entities” and parts of IAS 27, “Consolidated and Separate Financial Statements”. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 11 – “Joint Arrangements” (“IFRS 11”)

IFRS 11 requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method

of accounting, whereas for a joint operation, the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, “Interests in Joint Ventures”, and SIC-13, “Jointly Controlled Entities—Non-monetary Contributions by Ventures”. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 12 – “Disclosure of Interests in Other Entities” (“IFRS 12”)

IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity’s interests in other entities. The Company does not believe the adoption of IFRS 10 will materially affect its results from operations or its financial position.

IFRS 13 – “Fair Value Measurement” (“IFRS 13”)

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and, in many cases, does not reflect a clear measurement basis or consistent disclosures. The Company has not yet assessed the impact of the adoption of IFRS 13 on its results from operations or its financial position.

Adoption of International Financial Reporting Standards (“IFRS”)

The Company previously prepared its financial statements in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”) as set out in the Handbook of the Canadian Institute of Chartered Accountants (“CICA Handbook”). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (“IFRS”), and required publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011, with early adoption permitted. Accordingly, these unaudited interim condensed consolidated financial statements are based on IFRS, as issued by the International Accounting Standards Board (“IASB”). In these unaudited interim condensed consolidated financial statements, the term “Canadian GAAP” refers to Canadian GAAP before the company’s adoption of IFRS.

Overview

The effect of the Company's transition to IFRS is summarized as follows: transition elections; explanatory notes on Canadian GAAP/IFRS differences; and additional IFRS information and disclosures for the year ended June 30, 2011.

Refer to note 16 of the interim condensed consolidated financial statements for a detailed reconciliation of the impact of the differences between Canadian GAAP and IFRS on our financial position, results from operations, and cash flows as related to fiscal 2011.

Transition elections

The adoption of IFRS requires the application of IFRS 1, "*First-time Adoption of International Financial Reporting Standards*" ("IFRS 1"), which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires retrospective application of IFRS effective at the end of the Company's first annual IFRS reporting period. However, IFRS 1 also provides certain optional exemptions and mandatory exceptions to this retrospective treatment.

The Company has applied the following transitional exceptions and exemptions to full retrospective application of IFRS in its preparation of an opening IFRS consolidated statement of financial position at July 1, 2010 (the Company's "Transition Date"):

- i) To apply IFRS 2, "*Share-based Payments*", retrospectively only to awards that were issued after November 7, 2002 and where any portion of said awards had not vested by the Transition Date;
- ii) To reclassify certain of the Company's financial instruments (investments in interest-bearing securities) as available for sale financial assets as opposed to held-to-maturity financial assets on the Transition Date; and
- iii) To apply IFRS 3, "*Business Combinations*", prospectively from the Transition Date and, therefore, not restate business combinations that took place prior to the Transition Date. As such, Canadian GAAP balances relating to business combinations entered into before the Transition Date, including acquired intangible assets, have been carried forward without adjustment.

The Company's Transition Date IFRS consolidated statement of financial position is included as comparative information in the interim condensed consolidated statements of position in the interim condensed consolidated financial statements.

Explanatory notes on differences between Canadian GAAP and IFRS

Warranty liability – Under Canadian GAAP, the Company estimated its warranty liability at the time services were sold, based on computer theft and recovery rates and historical payout ratios, in advance of delivery of the Company's services. As the warranty liabilities estimated using this method related to periods greater than one fiscal year, the liabilities were split between current and long-term. In addition, costs associated with the warranty estimates were deferred and amortized over the same period as the associated Sales Contracts. Unamortized warranty costs were included as a reduction of deferred revenue on the statement of financial position.

Under IFRS, the Company estimates its warranty liability based on computer thefts: a) reported to the Company at each reporting date; and b) which are unreported to the Company, but are estimated based on the number of thefts which have occurred but have not yet been reported, based on historical theft reporting timeframes. The Company then uses historical recovery rates and payout ratios to estimate the warranty liability. As the warranty liability relates only to computer thefts occurring in the past which are typically paid out in less than 180 days, the liability is carried as a current liability. Costs associated with the warranty are recognized in the current period statement of operations. On the Transition Date, the Company recognized the effect of these changes, which decreased total liabilities by \$3,977,095 (comprised of a \$7,641,798 decrease in accrued warranty, and a \$3,664,703 increase in deferred revenue), with a corresponding offset to deficit, which decreased total shareholders' deficiency by that amount. Under IFRS, as compared to Canadian GAAP, cost of goods sold for the year ended June 30, 2011 increased by \$414,162 (three months ended September 30, 2010 – \$284,710).

Intangible assets – Under Canadian GAAP, the Company deferred and amortized deferred contract costs, consisting of deferred sales commissions and brand royalties. These costs were split into their current and long-term portions on the statement of financial position as deferred contract costs. Under IFRS, these costs continue to be deferred, however, they are now presented as a portion of intangible assets. On the Transition Date, \$3,793,123 was reclassified from current deferred contract costs and \$3,516,862 was reclassified from long-term deferred contract costs to intangible assets. Also on the Transition Date, an amount of \$205,359 was adjusted as a result of the change in the Company's functional currency to the U.S. dollar. Amortization of those assets remained the same under IFRS as it was under Canadian GAAP.

Share-based compensation – Under Canadian GAAP, each stock option grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the vesting period, generally 48 months, on a straight-line basis. IFRS requires a separate calculation of compensation expense for awards that vest in instalments. Under Canadian GAAP, forfeitures of the share-based compensation awards could be accounted for in the period in which the forfeitures occurred. Under IFRS, compensation expense differs from Canadian GAAP based on the changing fair values used for each installment, the application of the forfeiture rate and the timing of recognizing compensation expense. Generally, this results in accelerated expense recognition under IFRS. On the Transition Date, the Company recognized additional

compensation expense of \$4,993,006, which increased the Company's deficit, with a corresponding offset to equity reserve. Total shareholders' deficiency was not affected. Under IFRS, as compared to Canadian GAAP, share-based compensation expense for the year ended June 30, 2011 increased by \$763,993 (three months ended September 30, 2010 —\$123,276).

Functional currency – Under Canadian GAAP, the functional currency of the parent company and its subsidiaries was Canadian dollars. Under IFRS, the Company assessed that the parent company and the majority of its subsidiaries' functional currencies is United States dollars. The company determined that, under IFRS, its functional currency would always have been United States dollars. This change was applied retrospectively and caused the value of a number of items in the statement of financial position and operating revenues and expenses denominated in currencies other than United States dollars to have values different under IFRS. Most significantly, under IFRS, this change resulted in the Company experiencing a foreign exchange gain of \$3,514,259 for the year ended June 30, 2011, as compared to a foreign exchange loss of \$1,753,754 under Canadian GAAP. For the three months ended September 30, 2010, the Company experienced a foreign exchange gain under IFRS of \$1,627,106, compared to a loss of \$170,292 under Canadian GAAP. For the year ended June 30, 2011, this change resulted in revenue measured under IFRS being lower than what would have been reported under Canadian GAAP by an amount of \$4,116,825 (three months ended September 30, 2010 - \$371,606), primarily as a result of the fact that our historical U.S. dollar denominated deferred revenues were recorded at an average foreign exchange rate of 1.0373.

This change also impacted the Company's deferred income tax recoveries and expenses due to the application of movements in foreign exchange rates against the Company's future income tax assets, which are recorded as part of income tax recovery or expense. Under Canadian GAAP, the Company experienced an income tax expense of \$1,484,034 for the year ended June 30, 2011 (three months ended September 30, 2011 – recovery of \$416,760) as compared to an income tax recovery of \$968,812 (three months ended September 30, 2011 – recovery of \$664,830) under IFRS.

Deferred income taxes – Under Canadian GAAP, deferred income taxes (future income taxes) were classified as current or long term based on the underlying classification of the item in the statement of financial position on which it was calculated. Under IFRS, deferred income taxes are all long-term. Due to the change in the net book value of certain assets under IFRS, primarily related to the change in the Company's functional currencies, deferred income taxes were affected accordingly. At the Transition Date, the Company reclassified \$9,303,691 from current to long-term deferred tax assets.

The change in functional currency also impacted the Company's deferred income tax recoveries and expenses due to the application of movements in foreign exchange rates against the Company's future income tax assets. These foreign exchange movements are recorded as part of income tax recovery or expense. Under Canadian GAAP, the Company experienced an income tax expense of \$1,484,034 for the year ended June 30, 2011 (three months ended September 30, 2010 – recovery of \$416,760) as compared to an income tax recovery of \$968,812 (three months ended September 30, 2010 – recovery of \$664,830).

Quarterly financial information under IFRS

The following table outlines our financial position as at the end of each quarter in Fiscal 2011, accounted for under IFRS and presented in U.S. dollars:

	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011
ASSETS				
CURRENT				
Cash and cash equivalents	\$ 31,584,505	\$ 28,818,138	\$ 29,406,822	\$ 29,866,741
Short-term investments	1,569,919	820,665	835,691	6,964,589
Trade and other receivables	14,217,440	13,771,532	12,914,154	16,174,126
Prepaid expenses and other	1,040,736	1,184,218	1,534,348	1,598,015
	48,412,600	44,594,543	44,691,015	54,603,471
INVESTMENTS	23,109,980	23,964,292	24,744,070	18,905,433
PROPERTY AND EQUIPMENT	2,308,587	2,177,959	2,176,502	1,840,824
DEFERRED INCOME TAX ASSETS	18,973,412	19,686,776	20,797,357	20,845,469
INTANGIBLE ASSETS	25,795,781	24,639,466	23,296,359	22,323,743
	\$ 118,600,360	\$ 115,063,036	\$ 115,705,303	\$ 118,518,940
LIABILITIES				
CURRENT				
Trade and other payables	\$ 7,758,331	\$ 8,794,105	\$ 9,776,541	\$ 8,768,886
Income tax payable	1,213,778	1,828,823	542,355	-
Acquisition payable – current	1,679,860	1,710,724	1,721,363	1,762,611
Accrued warranty – current	990,000	960,000	910,000	880,000
Deferred revenue – current	54,172,864	54,772,716	54,954,586	55,923,312
	65,814,833	68,066,368	67,904,845	67,334,809
ACQUISITION PAYABLE	3,278,822	1,624,411	1,590,162	1,623,041
DEFERRED REVENUE	50,714,805	51,081,392	51,472,123	55,255,525
	119,808,460	120,772,171	120,967,130	124,213,375
SHAREHOLDERS' DEFICIENCY				
Share Capital	34,369,302	34,454,636	34,621,821	34,640,517
Equity reserve	31,797,883	33,261,753	33,895,587	34,431,802
Deficit	(67,375,285)	(73,425,524)	(73,779,235)	(74,766,754)
	(1,208,100)	(5,709,135)	(5,261,827)	(5,694,435)
	\$ 118,600,360	\$ 115,063,036	\$ 115,705,303	\$ 118,518,940

The following table outlines our summarized results from operations and cash flows for each quarter in and for the full year of Fiscal 2011, accounted for under IFRS and presented in U.S. dollars:

STATEMENT OF OPERATIONS (Unaudited)	For the three months ended				For the year ended June 30, 2011
	September 30, 2010	December 31, 2010	March 31, 2011	June 30, 2011	
REVENUE	\$ 16,326,555	\$ 16,763,762	\$ 16,930,028	\$ 17,966,026	\$ 67,986,371
COST OF REVENUE	4,988,017	4,699,664	5,069,258	4,523,699	19,280,638
GROSS MARGIN	11,338,538	12,064,098	11,860,770	13,442,327	13,442,327
OPERATING EXPENSES					
Sales and marketing	8,884,189	7,918,600	8,197,596	7,263,009	32,263,394
Research and development	2,920,694	2,929,074	2,954,303	2,819,404	11,623,475
General and administration	1,564,768	2,153,817	1,989,870	2,164,446	7,872,901
Investment tax credits	(383,368)	(406,884)	(2,003,178)	(441,298)	(3,234,728)
Share-based compensation	761,927	1,496,752	663,186	622,343	3,544,208
	13,748,210	14,091,359	11,801,777	12,427,904	52,069,250
OPERATING (LOSS) INCOME	(2,409,672)	(2,027,261)	58,993	1,014,423	(3,363,517)
OTHER INCOME					
Interest income, net	181,753	151,786	160,154	249,702	743,395
Foreign exchange gain (loss)	1,627,106	1,097,695	918,729	(129,271)	3,514,259
Gain on investments	1,316	282,038	-	-	283,354
	1,810,175	1,531,519	1,078,883	120,431	4,541,008
NET (LOSS) INCOME BEFORE INCOME TAXES	(599,497)	(495,742)	1,137,876	1,134,854	1,177,491
INCOME TAX RECOVERY (EXPENSE)	664,830	(259,188)	434,698	128,472	968,812
NET INCOME (LOSS)	\$ 65,333	\$ (754,930)	\$ 1,572,574	\$ 1,263,326	\$ 2,146,303
BASIC AND DILUTED (LOSS) INCOME PER SHARE	\$ 0.00	\$ (0.02)	0.04	\$ 0.03	\$ 0.05
STATEMENT OF CASH FLOWS (Unaudited)					
CASH FROM OPERATING ACTIVITIES	\$ 3,443,572	\$ 3,239,017	\$ 3,034,473	\$ 3,123,880	\$ 12,840,941
CASH FROM (USED IN) INVESTING ACTIVITIES	3,977,730	(261,712)	(738,366)	(413,189)	2,564,463
CASH USED IN FINANCING ACTIVITIES	(2,802,185)	(6,119,524)	(1,823,996)	(2,318,277)	(13,063,982)
FOREIGN EXCHANGE EFFECT ON CASH	590,340	375,852	116,573	67,505	1,150,270
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,209,457	(2,766,367)	588,684	459,919	3,491,693
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 31,584,505	\$ 28,818,138	\$ 29,406,822	\$ 29,866,741	\$ 29,866,741

Evaluation of Disclosure Controls and Internal Controls over Financial Reporting

Disclosure controls and procedures

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

The Chief Executive Officer (CEO) and the Chief Financial Officer (CFO) have evaluated the effectiveness of the Company's disclosure controls and procedures related to the preparation of management's discussion and analysis and the consolidated financial statements. They have concluded that the Company's disclosure controls and procedures were effective, at a reasonable assurance level, to ensure that material information relating to the Company and its consolidated subsidiaries would be made known to them by others within those entities, particularly during the period in which the Management's discussion and analysis and the interim condensed consolidated financial statements contained in this report were being prepared.

Internal control over financial reporting

The Company's management, with the participation of its CEO and CFO, are also responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Under the supervision of the CEO and CFO, the Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

There have been no changes in the Company's disclosure controls or internal control over financial reporting during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. The Company's CEO and CFO expect to certify Absolute's quarterly filings with the Canadian securities regulatory authorities.

Risks and Uncertainties

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

Economic Uncertainty - Many of Absolute's customers are being affected by economic conditions affecting the broader market. Current and future conditions in the domestic and global economies remain uncertain. As a result, it is difficult to estimate the level of growth or contraction for the economy as a whole. It is even more difficult to estimate growth or contraction in various parts, sectors and regions of the economy, including the markets in which the Company participates. Because all components of the Company's budgeting and forecasting are dependent upon estimates of growth or contraction in the markets it serves and demand for its products and services, the prevailing economic uncertainties render estimates of future income and expenditures very difficult to make. Adverse changes may occur as a result of soft economic conditions, wavering consumer confidence, unemployment, declines in stock markets, contraction of credit availability, declines in real estate values, or other factors affecting economic conditions generally. These changes may negatively affect the sales of the Company's products and services, and therefore impact its ability to meet its targets for Cash from Operating Activities and Sales Contracts and, affect the Company's ability to retain key employees, or increase the exposure to losses from investments and bad debts.

Ability to Predict Rate of Growth and Profitability – Absolute focuses on sales growth and Cash from Operating Activities as its key performance metrics, and management believes that revenue and IFRS profitability will approach the Company's Cash Margins as the rate of growth slows. However, due to the evolving SaaS business model and the unpredictability of our emerging category of security, Absolute may not be able to accurately forecast the rate of adoption of its services and hence its sales growth. Absolute bases its current and future expense levels and its investment plans on estimates of future sales growth. Absolute may not be able to adjust its spending quickly enough if the rate of new or renewed subscriptions falls short of its expectations. As a result, Absolute's operating results may fluctuate significantly on a quarterly basis. In addition, Absolute's historic Sales Contract, revenue and cash flow growth rates may not be sustainable and may decline in the future. Accordingly, period-to-period comparisons of our operating results may not necessarily be a meaningful indicator of future performance.

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

Customer Subscription Renewal Rates – Absolute generates more than 50% of its annual sales through purchases and subscription renewals from existing customers. Our customers' renewal rates may decline or fluctuate as a result of a number of factors, including their level of satisfaction with the services and their ability to continue their operations and spending levels. If our customers do not renew their service subscriptions, our revenue will decline and our business will suffer.

Emerging Products and Technology – The market for Absolute’s products is still emerging and continued growth and demand for, and acceptance of, these products remains uncertain. In addition, other emerging technology and products may impact the viability of the market for Absolute’s products. Absolute’s continued success will depend upon its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing customer requirements and achieve market acceptance. There can be no assurance that Absolute will be able to respond effectively to changes in technology or customer demands. Moreover, there can be no assurance that Absolute’s competitors will not develop competitive products or that any such products will not have an adverse effect upon Absolute’s business, financial condition or results of operations.

Ability to Successfully Integrate Acquisitions – We expect to continue to evaluate possible acquisitions of, or strategic investments in, businesses, products or technologies that are complementary to our business. In December 2009, we acquired certain assets of Pole Position Software GmbH, and in April 2010, we acquired certain technology assets of Phoenix Technologies Ltd. We may not realize future benefits from any of these past or future acquisitions nor be able to release new products and features arising from these acquisitions to market in a timely manner. If we fail to integrate successfully our past and future acquisitions, or the technologies associated with such acquisitions, the revenue and operating results of the combined company could be adversely affected. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including accounting charges. The areas where we may face risks include:

- difficulties in integrating the operations, technologies, products and personnel of the companies we acquire into our operations;
- potential disruption of our on-going business and diversion of management’s attention from normal daily operations of the business;
- insufficient revenues to offset increased expenses associated with acquisitions;
- potential for third party intellectual property infringement claims against the companies we acquire;
- failure to successfully further develop acquired technology, resulting in the impairment of amounts capitalized as intangible assets;
- impairment of relationships with customers and partners of the companies we acquire or in which we invest, or with our customers and partners, as a result of the integration of acquired operations;
- impairment of relationships with employees of the acquired companies or our existing employees as a result of integration of new management personnel;
- impact of known potential liabilities or unknown liabilities associated with the companies we acquire; and
- in the case of foreign acquisitions, uncertainty regarding foreign laws and regulations and difficulty integrating operations and systems as a result of cultural, systems and operational differences.

We are likely to experience similar risks in connection with our future acquisitions, if any. Our failure to be successful in addressing these risks or other problems encountered in connection with our past or future acquisitions could cause us to fail to realize the anticipated benefits of such acquisitions, incur unanticipated liabilities and adversely affect our business, operating results or financial condition, or result in significant or material control weaknesses.

Future acquisitions or dispositions could also result in dilutive issuances of our equity securities, a decrease in our cash and cash equivalents and short-term investments, the incurrence of additional expense related to compliance, contingent liabilities or amortization of expenses, or write-offs of goodwill, any of which could harm our financial condition and negatively impact our operating results.

Breach of Security Measures and Unauthorized Access – The Company’s service involves the storage and transmission of certain customer information, and security breaches could expose the Company to a risk of loss of this information, litigation and possible liability. Absolute’s technology and security measures have been designed and implemented in order to mitigate risks of this nature. However, if our security measures are breached as a result of third-party action, employee error, malfeasance or otherwise, during transfer of data to additional data centers or at any time, and, as a result, someone obtains unauthorized access to our data or our customers’ data, our reputation could be damaged, our business may suffer and Absolute could incur significant liability. The Company may be unable to anticipate new attack techniques or may not have time to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and Absolute could lose sales and customers. In addition, our customers may authorize third party service providers to access their customer data. Because the control of these third-party service providers is undertaken by our customers, Absolute cannot ensure the complete integrity or security of such transmissions or processing.

Intellectual Property Licensing and or Enforcement – Absolute’s revenue, cost of sales, and expenses may suffer if we cannot continue to license or enforce our intellectual property rights or if third parties assert that Absolute violates their intellectual property rights. The Company relies upon patent, copyright, trademark and trade secret laws in the United States and similar laws in other countries, and agreements with employees, customers, suppliers and other parties, to establish and maintain intellectual property rights in its Computrace and Absolute Manage technology platforms. However, the industry in which the Company competes may include new or existing entrants that own, or claim to own, intellectual property, and the Company has received, and may receive in the future, assertions and claims from third parties that the Company’s products infringe on their patents or other intellectual property rights (see “Patent Portfolio”). Litigation has been and will likely continue to be necessary to determine the scope, enforceability and validity of third-party proprietary rights or to establish the Company’s proprietary rights. Any of the Company’s direct or indirect intellectual property rights could be challenged, invalidated or circumvented, or such intellectual property rights may not be sufficient to permit Absolute to take advantage of current market trends or otherwise to provide competitive advantages, which could result in costly or delayed product redesign

efforts, discontinuance of certain product offerings or other competitive harm. Further, the laws of certain countries do not protect proprietary rights to the same extent as the laws of the United States. Therefore, in certain jurisdictions Absolute may be unable to protect its proprietary technology adequately against unauthorized third-party copying or use, which could adversely affect its competitive position. Third parties also may claim that Absolute or customers or partners indemnified by Absolute are infringing upon their intellectual property rights. In recent years, individuals and groups have begun purchasing intellectual property assets for the sole purpose of making claims of infringement and attempting to extract settlements from established companies. Even if management believes that the claims are without merit, the claims can be time-consuming and costly to defend and divert management's attention and resources away from the business. Claims of intellectual property infringement also might require Absolute to redesign affected products, enter into costly settlement or license agreements (if such licenses can be obtained on commercially reasonable terms, or at all) or pay costly damage awards, or face a temporary or permanent injunction prohibiting the marketing or selling certain of our products, which could result in the Company's business, operating results and financial condition being materially adversely affected.

Competition – It is also possible that new competitors will enter the marketplace. Several potential competitors are marketing or have announced the development of computer products in direct competition with Absolute. In addition, as Absolute develops new services, the Company may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their services more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their services and products than Absolute. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations. In addition, competitors are continuing to surface as security and management applications for mobile devices are introduced to market.

Management of Growth – In prior fiscal years, Absolute has experienced rapid sales growth and has been focused on continuing this growth trend. This has resulted, at times, in increasing headcount and operational costs to generate and support this growing customer base, which has placed, and will continue to place, to the extent that Absolute is able to sustain such growth, a significant strain on management, administrative, operational and financial infrastructure. Absolute anticipates that further growth will be required to address increases in the customer base, further development of the service, as well as expansion into new geographic areas. Further growth will require Absolute to continue to hire, train and manage new employees as needed. If new hires perform poorly, or if Absolute is unsuccessful in hiring, training, managing and integrating these new employees, or if Absolute is not successful in retaining existing employees, our business may be harmed. In addition, we may continue to expand our sales teams in an attempt to increase sales growth. Such growth may not match or exceed the increase of operations costs associated with such hiring, training, managing, and integrating of such employees.

Litigation or Dispute Resolution – From time to time, we may be subject to litigation or dispute resolution relating to any number or type of claims, including claims for damages related to undetected errors or malfunctions of our services and products, claims related to previously-completed acquisition transactions or claims relating to applicable securities laws. A product liability, patent infringement, acquisition-related or securities class action claim could seriously harm our business because of the costs of defending the lawsuit, diversion of employees’ time and attention, and potential damage to our reputation. Further, our services and products are complex and often implemented by our customers to interact with third-party technology. Claims may be made against us for damages properly attributable to those third-party technologies, regardless of our lack of responsibility for any failure resulting in a loss. As a result, we could be required to pay substantial amounts of damages in settlement or upon the determination of any of these types of claims, and incur damage to the reputation of Absolute and our products. The likelihood of such claims and the amount of damages we may be required to pay may increase as our customers increasingly use our services and products. Our insurance may not cover potential claims, or may not be adequate to cover all costs incurred in defense of potential claims or to indemnify us for all liability that may be imposed.

Cyclical Nature of our Business – Our business may be impacted from time to time by the general cyclical and seasonal nature of PC and other device purchases by corporate and governmental entities. Factors which may create cyclical fluctuations include the development and adoption of new operating system software, the expiry of leases on devices or the introduction of newer or more advanced devices, legal and regulatory requirements, timing of contract renewals between our partners and their own customers and seasonal-based purchasing for educational institutions. Since some of our revenues from particular products and services are tied to the volume of shipments being processed, adverse fluctuations in the volume of global shipments may adversely affect our revenues. There can be no assurance that declines in shipment volumes in the U.S. or internationally will not have a material adverse effect on our business.

Volatility in our Share Price – The trading price of our common shares has in the past been subject to wide fluctuations and may also be subject to fluctuation in the future. This may make it more difficult for you to resell your common shares when you want at prices that you find attractive. Increases in our common share price may also increase our compensation expense pursuant to our existing director, officer and employee compensation arrangements. Fluctuations in our common share price may be caused by events unrelated to our operating performance and beyond our control. Factors that may contribute to fluctuations include, but are not limited to:

- Revenue or results of operations in any quarter failing to meet the expectations, published or otherwise, of the investment community;
- Changes in recommendations or financial estimates by industry or investment analysts;
- Changes in management or the composition of our board of directors;
- Outcomes of litigation or arbitration proceedings;
- Announcements of technological innovations or acquisitions by us or by our competitors;

- Introduction of new products or significant customer wins or losses by us or by our competitors;
- Developments with respect to our intellectual property rights or those of our competitors;
- Fluctuations in the share prices of other companies in the technology and emerging growth sectors;
- General market conditions; and
- Other risk factors set out in this report.

If the market price of our common shares drops significantly, shareholders could institute securities class action lawsuits against us, regardless of the merits of such claims. Such a lawsuit could cause us to incur substantial costs and could divert the time and attention of our management and other resources from our business.

Reliance on Key Personnel – Absolute’s future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that Absolute can retain these personnel and continue to recruit required talent. The loss of the services of Absolute’s key employees could have a material adverse effect on Absolute’s business, operating results and financial condition.

Efforts to Sell to Larger Enterprise Customers – As Absolute targets more sales efforts at larger enterprise customers, the Company could face greater costs, longer sales cycles, less predictability in completing some sales and greater fluctuation in sales and cash flow in quarters where these large deals conclude. In this market segment, the customer’s decision to use Absolute’s service or products may be an enterprise-wide decision and, if so, these types of sales may require Absolute to provide greater levels of education regarding the use and benefits of the service, as well as education regarding privacy and data protection laws and regulations to prospective customers with international operations. As a result of these factors, these sales opportunities may require Absolute to devote greater sales support and professional services resources to individual customers, driving up costs and time required to complete sales and diverting sales and professional services resources to a smaller number of larger transactions.

Foreign Operations – The Company intends to continue to pursue international market growth opportunities, which could result in international sales accounting for an increasing portion of the Company’s consolidated revenues. The Company intends to commit increased resources to its international operations as well as to related sales and marketing activities. The Company maintains offices in Canada, the U.S., United Kingdom, and Germany. The Company may not be aware of all the factors that may affect its business in foreign jurisdictions. The Company will be subject to a number of risks associated with international business activities that may increase liability or costs, lengthen sales cycles or require significant management attention. International operations carry certain risks and associated costs, such as: the complexities and expense of administering a business abroad; complications in compliance with, and unexpected changes in legal and regulatory restrictions or requirements; foreign laws, international import and export legislation; trading and investment policies; foreign currency fluctuations; exchange controls; tariffs and other trade barriers; difficulties in collecting accounts receivable; potential adverse tax consequences; uncertainties of laws and

enforcement relating to intellectual property and privacy rights; unauthorized copying of software; difficulty in managing a geographically dispersed workforce in compliance with diverse local laws and customs; and other factors depending upon the country involved. There can be no assurance that the Company will not experience these risks in the future. If foreign operations expand to the point where they account for a significant portion of the Company's consolidated revenues, the presence of such risks could have a material adverse effect on the Company's business, operating results and financial condition.

Foreign Exchange – The Company's reporting and functional currency is the United States dollar. However, a significant portion of operating expenses is denominated in Canadian dollars. As a result, the Company is exposed to fluctuations in the Canadian dollar exchange rate for which it has not entered into foreign exchange hedges. A significant appreciation of the Canadian dollar relative to the U.S. dollar could materially impact the profitability of the company.

Fluctuation of Quarterly Results and Failure to Meet the Expectations of Analysts or Investors – Absolute's quarterly operating results are likely to fluctuate, and if Absolute fails to meet or exceed the expectations of securities analysts or investors, the trading price of its common stock could decline. Moreover, the stock price may be based on expectations of Absolute's future performance that may be unrealistic or that may not be met. Absolute believes that quarter-to-quarter comparisons of its results should not necessarily be relied upon as a reliable indicator of future performance.

The Effect of Amortization of Revenue Over the Term of the Subscription – Absolute generally recognizes revenue from customer subscriptions ratably over the terms of the Sales Contracts. The average term is approximately 27 months, although terms can range from one year to as much as five years. As a result, most of the revenue the Company reports in each quarter results from the recognition of deferred revenue relating to Sales Contracts entered into during previous periods. Consequently, a decline in new or renewal subscriptions in any one quarter will not necessarily be fully reflected in the revenue in that quarter but will negatively affect revenue in future quarters. In addition, Absolute may be unable to adjust its cost structure to reflect the changes in Sales Contracts. Accordingly, the effect of significant downturns in sales and market acceptance of the Company's service or products may not be fully reflected in Absolute's results of operations until future periods. The Company's subscription model also makes it difficult to rapidly increase revenue through additional sales in any period, as revenue from new customers must be deferred and recognized over the applicable subscription term.

Sales Contracts – Management considers Sales Contracts to be one of the key financial performance indicators for the Company. Most Sales Contracts (greater than 85%) are conducted via channel partners who purchase from Absolute in order to resell to their customers. While Absolute's services are provided directly to the end user customer, the orders, which include ship dates, customer name, product, pricing and volume, come in various forms from the reseller partner (sales reports, purchase orders, shipping reports, royalty reports, etc.). Absolute ships the software, commences the subscription term, and invoices the reseller (and receives payment from the reseller) based on receipt of, or ship dates contained in, these forms of evidence of the end customer purchase, and

reports this as a Sales Contract for the applicable period. Accordingly, Absolute is relying upon the reseller partner to have sufficiently concluded the sales process with the end user customer to ensure that the order is valid and the risk of returns is kept to a minimum. Historically, Absolute's experience with returns has corroborated that this reliance is justified. However, it is possible that a reseller may order from us and subsequently return the product in accordance with generally accepted industry return practices. In such cases, if a sale had been reported in a prior period, it would have to be subsequently reversed, impacting future Sales Contracts and revenue performance. However, Absolute does not make a provision against Sales Contracts for potential returns for the following reasons: revenue recognition from Sales Contracts does not commence until the month after sale so there would be no income statement impact as a result of such provision; and the revenue recognition term averages approximately 27 months compared to industry standard return policies which are generally less than 90 days, so any returns are generally accounted for prior to any material recognition of revenue. Accordingly, the effect of any customer returns may not be fully reflected in Sales Contracts and deferred revenue figures until a future period.

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

Product Errors and Third-Party Mischief – The software technology enabling Absolute's software services is complex and the related application software may contain errors or defects, especially when first introduced or when new versions are released. Any errors that are discovered after commercial release could result in loss of revenues or delay in market acceptance, diversion of development resources, damage to Absolute's reputation, increased service and warranty costs and liability claims. In addition, it is possible that the Company's product may become the subject of a third party attack or disruption, whether malicious or otherwise. This could detrimentally affect the persistence of the Company's technology, which could have a material adverse effect on its business.

Operating Environment – The Computrace software that enables Absolute's product operates in a potentially hostile environment. In addition, Absolute's Computrace services rely upon connection to the Absolute Monitoring Center. If the computer is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen computer. If Absolute is unable to successfully demonstrate to customers that the Computrace Agent will call in, it may affect Absolute's ability to sell its Computrace line of products.

Interruptions or Delays in Service From Our Third-Party Hosting Facilities – Absolute currently serves its customers from facilities that include third-party hosting facilities located on the west coast of Canada and the U.S. Damage to, or failure of, our systems generally could result in interruptions in our service. Interruptions in our service may reduce our revenue, cause us to issue credits or pay penalties, cause customers to

terminate their subscriptions and adversely affect our renewal rates and our ability to attract new customers. Our business will also be harmed if our customers and potential customers believe our service is unreliable.

As part of our current disaster recovery arrangements, redundant hardware is deployed where possible in all production customer environments. Production data is backed up onto encrypted media and taken off-site. The recovery procedures and encryption keys are held remotely by Absolute employees, so that the systems can be restored in the event of a site-wide disaster. Other than contractual assurances and agreed-to controls, Absolute does not control the operation of any of these facilities, and they are vulnerable to damage or interruption from earthquakes, floods, fires, power loss, telecommunications failures and similar events. They may also be subject to break-ins, sabotage, intentional acts of vandalism and similar misconduct. Despite precautions taken at these facilities, the occurrence of a natural disaster or an act of terrorism, a decision to close the facilities without adequate notice or other unanticipated problems at these facilities could result in lengthy interruptions in our service. Even with the disaster recovery arrangements, our service could be interrupted.

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

Additional Patent Applications – The Company's commercial success depends upon its ability to develop new or improved technologies and products, and to successfully obtain patent or other proprietary or statutory protection for these technologies and products in Canada, the United States and other countries. The Company seeks to patent concepts, components, protocols and other inventions that are considered to have commercial value or that will likely yield a technological advantage. The Company owns rights to patented and patent pending technologies in the United States, Canada and other countries. However, the Company may not be able to develop new technology that is patentable, new patents may not be issued in connection with the Company's pending applications and allowed claims may not be sufficient to protect the Company's new technology. Furthermore, any patents issued could be challenged, invalidated or circumvented and may not provide proprietary protection or a competitive advantage. New entrants to the field may have been issued patents, and may have filed patent applications or may obtain additional patents and proprietary rights, for technologies similar to those that the Company has made or may make in the future. Since patent applications filed before November 29, 2000 in the United States are maintained in secrecy until issued as patents, and since publication or public awareness of new technologies often lags behind actual discoveries, the Company cannot be absolutely certain that it was the first to develop the technology covered by its pending patent applications or that it was the first to file patent applications for the technology. In addition, the disclosure in the Company's new patent applications, particularly in respect of the utility of its claimed inventions, may not be sufficient to meet the statutory

requirements for patentability in all cases. As a result, there can be no assurance that the Company's new patent applications will result in enforceable patents, nor can the breadth of allowed claims in the Company's patents, and their enforceability, be predicted. Even if the Company's patents are held to be enforceable, others may be able to design around these patents or develop products similar to the Company's products that are not within the scope of these patents.

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

Privacy Law Concerns – Absolute's customers use our service to transmit, receive and store identifying information regarding their mobile computing devices, including location information. Our Computrace products and monitoring systems are developed to ensure that components or tools that enable personal information to be obtained from host computers are not resident in the products during normal use, and are only implemented by Absolute's trained experts in the case of emergency and on the instructions of our customers. While information obtained in normal usage is generally not of a personally identifiable nature, advances in location and tracking technology may evolve such that certain types of information collected in the tracking process could be considered to be personally identifiable information. Federal, provincial, state and foreign government bodies and agencies have adopted or are considering adopting laws and regulations regarding the collection, use and disclosure of personal information obtained from consumers and individuals. The costs of compliance with, and other burdens imposed by, such laws and regulations that are applicable to the businesses of our customers may limit the use and adoption of our service and reduce overall demand for it. Even the perception of privacy concerns, whether or not valid, may inhibit market adoption of our service in certain industries.

Development of Brand – Absolute believes that developing and maintaining awareness of its proprietary and licensed brands in a cost-effective manner is critical to achieving widespread acceptance of its existing and future services and is an important element in attracting new customers. Furthermore, Absolute believes that the importance of brand recognition will increase if competition in our market develops or intensifies. Successful promotion of our brands will depend largely on the effectiveness of our marketing efforts and on our ability to provide reliable secure and useful services at competitive prices. If Absolute fails to successfully promote and maintain its brands, or incurs substantial expenses in an unsuccessful attempt to promote and maintain its brands, Absolute may

fail to attract enough new customers or retain existing customers to the extent necessary to realize a sufficient return on brand-building efforts.

Income Taxes – Significant judgment is required in determining our provision for income taxes. Various internal and external factors may have favourable or unfavourable effects on our future provision for income taxes, income taxes payable, and/or effective income tax rate. These factors include, but are not limited to: changes in tax laws, regulations and/or rates; results of audits by tax authorities; changing interpretations of existing tax laws or regulations; changes in estimates of prior years' items; future levels of R&D spending; changes in the overall mix of income among the different jurisdictions in which we operate; and changes in overall levels of income before taxes. To the extent that the taxation authorities do not agree with our tax positions, we may not be able to realize all or a portion of the tax benefits recognized. Furthermore, new accounting pronouncements or new interpretations of existing accounting pronouncements (such as those described in "Recent Accounting Pronouncements" in this MD&A) can have a material impact on our effective income tax rate.

The Company and its subsidiaries file income tax returns and pay income taxes in jurisdictions where we believe we are subject to tax. In jurisdictions in which the Company and its subsidiaries do not believe we are subject to tax and therefore do not file income tax returns, we can provide no certainty that tax authorities in those jurisdictions will not subject one or more tax years (since inception of the Company or its subsidiaries) to examination. Tax examinations are often complex as tax authorities may disagree with the treatment of items reported by the Company, the result of which could have a material adverse effect on our financial condition and results of operations.

Securities Analysts – The trading market for Absolute's common stock is in part affected by the research and reports that independent industry or financial analysts publish about Absolute or its business. Absolute does not control these analysts. If one or more of the analysts who publish reports on Absolute were to downgrade Absolute's stock or lower future stock price targets or estimates of operating results, Absolute's stock price could be adversely affected. Furthermore, if one or more of these analysts cease coverage of Absolute, Absolute could lose visibility in the market, which in turn could cause Absolute's stock price to decline.