

Auditors' Report and Consolidated Financial Statements of

**ABSOLUTE SOFTWARE
CORPORATION**

June 30, 2009 and 2008

Auditors' Report

To the Shareholders of
Absolute Software Corporation

We have audited the consolidated balance sheets of Absolute Software Corporation as at June 30, 2009 and 2008 and the consolidated statements of loss and comprehensive loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
August 21, 2009

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian dollars)

	Notes	As At	
		June 30, 2009	June 30, 2008
ASSETS			(Restated - see Note 2(b))
CURRENT			
Cash and cash equivalents	(Note 3)	\$ 56,078,004	\$ 46,460,299
Short-term investments	(Note 3)	8,743,861	10,488,167
Accounts receivable, net of allowance for doubtful accounts of \$2,387,000 (2008 - \$715,000)		15,570,780	18,396,731
Prepaid expenses and other		974,564	906,792
Current portion of deferred contract costs	(Note 4)	3,609,944	3,086,833
Current portion of future income tax assets	(Note 6)	10,646,521	1,341,691
		95,623,674	80,680,513
INVESTMENTS	(Note 3)	4,076,211	7,016,074
DEFERRED CONTRACT COSTS	(Note 4)	3,765,717	3,212,827
PROPERTY AND EQUIPMENT	(Note 5)	2,644,275	1,971,003
FUTURE INCOME TAX ASSETS	(Note 6)	11,081,073	1,512,970
INTANGIBLE ASSET	(Note 7)	127,775	255,549
		\$ 117,318,725	\$ 94,648,936
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 6,775,466	\$ 6,240,941
Income tax payable	(Note 6)	1,575,000	-
Current portion of accrued warranty	(Note 8)	5,288,520	5,448,513
Current portion of deferred revenue	(Note 9)	46,577,880	37,527,453
		60,216,866	49,216,907
ACCRUED WARRANTY	(Note 8)	5,963,650	6,396,080
DEFERRED REVENUE	(Note 9)	49,278,726	41,934,880
		115,459,242	97,547,867
COMMITMENTS	(Note 15)		
CONTINGENCIES	(Note 16)		
SHAREHOLDERS' EQUITY (DEFICIENCY)			
Share capital and other equity	(Note 10 (b))	41,988,977	41,915,225
Contributed surplus	(Note 10 (c))	26,822,975	11,938,462
Deficit		(66,952,469)	(56,752,618)
		1,859,483	(2,898,931)
		\$ 117,318,725	\$ 94,648,936

APPROVED ON BEHALF OF THE BOARD:

"John Livingston"
Director

"Ian Giffen"
Director

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Loss, Comprehensive Loss and Deficit

Years ended June 30, 2009 and 2008

(Expressed in Canadian dollars)

	Notes	Year Ended	
		2009	2008
REVENUE		53,218,894	37,853,404
COST OF SALES		11,733,139	11,459,549
GROSS MARGIN		41,485,755	26,393,855
EXPENSES			
Sales and marketing		29,039,585	18,078,427
Research and development		7,259,803	4,782,038
General and administration		8,951,743	6,686,105
Investment tax credits		(3,000,000)	(1,400,000)
Stock-based compensation		15,792,738	4,948,972
		58,043,869	33,095,542
OPERATING LOSS		(16,558,114)	(6,701,687)
OTHER INCOME (EXPENSE)			
Interest and bank charges		1,384,195	1,885,071
Foreign exchange gain (loss)		1,407,946	(805,115)
Loss on foreign exchange contracts		(849,500)	-
Restructuring charges		(989,132)	-
Write-down of investment	(Note 3)	(952,023)	(1,369,786)
		1,486	(289,830)
LOSS FOR PERIOD BEFORE INCOME TAXES		(16,556,628)	(6,991,517)
CURRENT INCOME TAX EXPENSE	(Note 6)	(4,575,000)	(1,400,000)
FUTURE INCOME TAX RECOVERY	(Note 6)	18,872,933	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR		(2,258,695)	(8,391,517)
DEFICIT, BEGINNING OF YEAR		(56,752,618)	(48,361,101)
ADJUSTMENT RELATED TO SHARE PURCHASE	(Note 10(b))	(7,941,156)	-
DEFICIT, END OF YEAR		\$ (66,952,469)	\$ (56,752,618)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.05)	\$ (0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		47,057,386	47,160,094

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2009 and 2008

(Expressed in Canadian dollars)

	Notes	Year Ended	
		2009	2008 (Restated - see Note 2(b))
OPERATING ACTIVITIES			
Net loss		\$ (2,258,695)	\$ (8,391,517)
Items not involving cash			
Amortization of property and equipment		1,238,642	813,597
Stock-based compensation		15,792,738	4,948,972
Amortization of intangible asset		127,774	127,775
Future income taxes	(Note 6)	(18,872,933)	-
Write-down of investment	(Note 3)	952,023	1,369,786
Realized loss on foreign exchange contract		849,500	-
Change in non-cash operating items			
Accounts receivable		2,825,951	(6,740,471)
Prepaid expenses and other		(67,772)	(121,055)
Deferred contract costs		(1,076,001)	(1,675,620)
Accounts payable and accrued liabilities		534,525	4,069,096
Income tax payable	(Note 6)	1,575,000	-
Accrued warranty		(592,423)	3,839,542
Deferred revenue		16,394,273	31,782,978
CASH FROM OPERATING ACTIVITIES		17,422,602	30,023,083
INVESTING ACTIVITIES			
Property and equipment purchased		(1,911,915)	(1,580,581)
Loss on foreign exchange contract		(849,500)	-
Proceeds from maturities of short term investments		15,570,571	31,672,314
Purchases of short term investments		(14,778,288)	(16,413,299)
Proceeds from maturities of investments		8,375,000	-
Purchases of investments		(5,435,137)	(7,016,074)
CASH FROM INVESTING ACTIVITIES		970,731	6,662,360
FINANCING ACTIVITIES			
Repurchase of common shares for cancellation	(Note 10(b))	(10,637,373)	-
Issuance of common shares		1,861,745	1,995,351
CASH (USED IN) FROM FINANCING ACTIVITIES		(8,775,628)	1,995,351
NET CASH INFLOW		9,617,705	38,680,794
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		46,460,299	7,779,505
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 56,078,004	\$ 46,460,299
COMPOSITION OF CASH AND CASH EQUIVALENTS:			
Cash		\$ 13,516,317	\$ 3,472,324
Cash equivalents		42,561,687	42,987,975
		\$ 56,078,004	\$ 46,460,299
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes paid		-	-
Interest and bank charges paid		62,965	96,764

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Consolidated Financial Statements
Years ended June 30, 2009 and 2008
(Expressed in Canadian dollars)

1. ORGANIZATION

The principal business activities of Absolute Software Corporation (the “Company”) since incorporation under the Company Act (British Columbia) on November 24, 1993 are the development, marketing and support of computer security and asset management services and products. All of the Company’s services and products are powered by its proprietary and patented Computrace software system. The Company markets its services and products through computer original equipment manufacturers (“OEMs”), value added resellers and directly to customers including corporations, governments, educational institutions and consumers. While the Company’s products are available internationally through resellers in Europe, Australia, South Africa and South America, a majority of its sales are generated in North America. The Company trades on the TSX under the symbol ABT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). The consolidated financial statements include the accounts of Absolute Software Corporation and its wholly owned subsidiaries, Absolute Software Inc. (U.S.), Computer Recovery, Inc. (U.S.), Absolute Software EMEA Ltd. (U.K.) and 609713 B.C. Limited. All intercompany balances and transactions have been eliminated upon consolidation.

(b) *Adoption of new Accounting Standards*

Goodwill and Intangible Assets

On April 1, 2009, the Company elected to early adopt the Canadian Institute of Chartered Accountants Handbook Section 3064, Goodwill and Intangible Assets, in accordance with the transition provisions for adoption. The new standard provides guidance on when expenditures qualify for recognition as intangible assets. Under Section 3064, deferred warranty costs, which were previously included in deferred contract costs, do not meet the criteria for recognition as an intangible asset. Accordingly, the portion of the accrued warranty provision on each contract is now netted against the total amount of the related deferred revenue (see Note 9). This change only affects the balance sheet, and does not impact the statements of operations and cash flows, and therefore does not impact loss per share.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The effects of adopting the new standard resulted in a retroactive adjustment to the Company's consolidated balance sheet as at June 30, 2008 as follows:

	As Previously Reported 2008	As Currently Reported 2008
Deferred Contract Costs	14,683,804	6,299,660
Deferred Revenue	87,846,477	79,462,333

The other elements of deferred contract costs (Note 4) and the intangible asset (Note 7) continue to meet the requirements for presentation as assets.

Financial instruments

Effective July 1, 2008, the Company adopted two new CICA standards, Handbook Section 3862, Financial Instruments Disclosures, and Section 3863, Financial Instruments Presentation, which replaces Handbook Section 3861, Financial Instruments Disclosure and Presentation. The new presentation standards carry forward the former presentation requirements and increase the emphasis on the disclosure of risks associated with both recognized and unrecognized financial instruments and how those risks are managed. Accordingly, these financial statements reflect the increased disclosure requirements in Note 13, Financial Risk Management and Financial Instruments.

Capital disclosures

Effective July 1, 2008, the Company adopted the new CICA standard, Handbook Section 1535, Capital Disclosures. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies and processes for managing capital. The additional disclosures, required as a result of adoption of these standards, have been included in Note 12, Capital Risk Management..

(c) *Significant Accounting Policies*

Foreign currency translation

The Company's functional currency is the Canadian dollar. Transaction amounts denominated in foreign currencies (currencies other than Canadian dollars) are translated into Canadian dollars at exchange rates prevailing at the transaction dates. Carrying values of non-Canadian dollar monetary assets and liabilities are adjusted at each balance sheet date to reflect the Canadian exchange rate prevailing at that date. Gains and losses arising from translation of foreign currency monetary assets and liabilities at each period end are included in operations.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Consolidated Financial Statements
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(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accounts of subsidiaries, not reporting in Canadian dollars, and which are integrated operations, are translated into Canadian dollars using the temporal method. Under this method, monetary assets and liabilities of foreign subsidiaries are translated at exchange rates in effect at the end of each period and non-monetary assets and liabilities are translated using historical exchange rates. Revenues and expenses are translated at the average exchange rate for the period, which approximates rates in effect on the date of the transaction. Foreign currency transaction gains and losses are included in operations.

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent liabilities during the period. Assessment of the carrying values of allowances for accounts receivable, and valuation of stock-based compensation, warrants, accrued warranty, and future income tax assets are significant areas requiring the use of estimates. Actual results may differ from the estimates used in the preparation of the financial statements.

Cash and cash equivalents, short-term investments and investments

Cash and cash equivalents consist of cash on deposit and highly liquid short-term interest-bearing securities with maturities at the date of purchase of three months or less. Investments in Cash and Cash Equivalents and Short-Term Investments are translated at exchange rates in effect on the balance sheet date. Investments in marketable and other securities are classified as Short Term Investments or Investments on the balance sheet, classified as held-for-trading financial instruments, and are carried at fair value on the balance sheet date with gains and losses recorded in the income statement.

Investments in bonds are classified as Short Term Investments or Investments, classified as held-to-maturity financial instruments, and are carried at amortized cost using the effective interest rate method on the balance sheet date.

The Company assesses declines in the value of individual held-to-maturity investments for impairment to determine whether the decline is other-than-temporary, in which case the investment is written down and the resulting loss recorded in the income statement.

Deferred contract costs

The Company sells service contracts (referred to as "Sales Contracts") with monitoring and theft recovery terms ranging from one to five years, the average term for which has historically been approximately 30 months. Commissions associated with Sales Contracts are deferred and amortized ratably over the contract term. Other costs, such as selling and

ABSOLUTE SOFTWARE CORPORATION
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

marketing, development, and new customer training and delivery, which are incurred to generate Sales Contracts, are expensed in the period in which they are incurred.

Property and equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is calculated using the straight line method from the month of purchase over the following estimated useful lives:

<u>Asset</u>	<u>Rate</u>
Computer equipment	3 years
Furniture and equipment	5 years
Computer software	1 year
Office equipment	3 years
Trade show equipment	2 years
Leasehold improvements	Term of the lease

Property and equipment assets are reviewed for impairment when events or changes in circumstances indicate that its carrying value may not be recovered. If estimates of future cash flows expected to result from the use of the asset are less than the carrying value, then the carrying value is written down to its fair value, based on the related estimated discounted future cash flows. No impairments have been recognized to date.

Intangible asset

The intangible asset relates to the value attributed to common share purchase warrants issued for acquisition of the rights to the “Lojack” brand name for use with Absolute’s consumer products. It is carried at cost less accumulated amortization. Amortization is calculated on a straight line basis over a five year period.

The intangible asset is reviewed for impairment when events or changes in circumstances indicate that its carrying value may not be recovered. If estimates of future cash flows expected to result from the use of the asset are less than the carrying value, then the carrying value is written down to its fair value, based on the related estimated discounted future cash flows. No impairments have been recognized to date.

Future income tax assets and income taxes

The Company follows the asset and liability method for accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in operations.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Consolidated Financial Statements
Years ended June 30, 2009 and 2008
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided for all or a portion of the value.

Deferred revenue and revenue recognition

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

A majority of the Company's revenue is from subscriptions ("Sales Contracts") to computer theft recovery and secure asset tracking services with subscription terms ranging from one to five years. The full value of each Sales Contract is invoiced and receivable (payable within industry standard invoice terms) upon signing the contract, and payment is non-refundable. However, these sales are comprised of multiple elements, including software, monitoring, theft recovery and maintenance services over the term, which are not separable for accounting purposes. As a result, the revenue from these contracts is recorded as deferred revenue on the balance sheet and is amortized to monitoring revenue ratably over the contract term. Amortization of sales contracts to revenue commences in the month after sale. A portion of the associated direct costs, such as commissions, are also deferred and expensed ratably over the contract term to match the revenue recognition.

The Company completes the majority of its Sales Contracts through OEM and reseller partners, the majority of which are in North America. All Sales Contracts are recorded at the net sale amount received by Absolute from the reseller, provided that all significant contractual obligations have been satisfied and collection is reasonably assured. For direct sales, the Sales Contract is recorded at the sale amount received from the customer.

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Notes to the Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued warranty and guarantee

The Company provides for warranty liabilities at the time the related Sales Contract is signed for the estimated costs that may be incurred under the warranty, and recognizes the warranty cost in cost of sales ratably over the contract term. The warranty liability is estimated based on historic warranty experience, and computer theft and theft recovery rates. The liability balance is drawn down by net guarantee payments and is adjusted on a periodic basis as required for changes in estimated warranty payment rates and actual historic experience through cost of sales.

Research and development costs

Research costs are charged to expense in the year in which they are incurred. Development costs are deferred if they meet specific criteria, otherwise they are expensed as incurred. At June 30, 2009 and 2008, no development costs have been deferred.

Stock-based compensation plans

The fair value method of accounting is used for stock-based awards. Under this method, the compensation cost of options and other stock-based compensation arrangements is recorded based on the estimated fair values at the grant date and charged to earnings over the vesting period.

Loss per share

Basic loss per share is calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding assumes that all dilutive options and warrants were exercised at the beginning of the period, and proceeds were applied to repurchase common shares at the average market price for the period.

(d) *Recent accounting pronouncements*

Adoption of International Financial Reporting Standards (IFRS)

The CICA plans to converge Canadian GAAP with IFRS over a transition period expected to end in 2011. The Company is currently assessing the future impact of these new standards on its financial statements.

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Notes to the Consolidated Financial Statements
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3. CASH AND CASH EQUIVALENTS, SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	Cost Basis	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-Term Investments	Investments
As at June 30, 2009						
Bank balances and term deposits	57,655,453		57,655,453	56,078,004	1,577,449	
Non-government ABCP	2,015,033	(1,032,920)	982,113			982,113
Investment Grade Securities	9,115,362		9,115,362		6,021,264	3,094,098
Marketable securities	2,434,037	(1,288,889)	1,145,148		1,145,148	
	71,219,885	(2,321,809)	68,898,076	56,078,004	8,743,861	4,076,211
As at June 30, 2008						
Bank balances and term deposits	46,746,913		46,746,913	46,460,299	286,614	
Non-government ABCP	2,108,000	(843,200)	1,264,800			1,264,800
Investment Grade Securities	14,045,376		14,045,376		8,294,102	5,751,274
Marketable securities	2,434,037	(526,586)	1,907,451		1,907,451	
	65,334,326	(1,369,786)	63,964,540	46,460,299	10,488,167	7,016,074

During fiscal 2009 the Company recorded an additional unrealized loss in the amount of \$190,000 for its holdings of Third-Party Asset-backed Commercial Paper ("ABCP") and \$760,000 for its holdings of marketable securities to adjust these financial instruments to their fair values.

On January 12, 2009, a Canadian Court granted an order for the implementation of a restructuring plan for the ABCP and the restructuring was completed on January 21, 2009. As a result, the Company received in replacement of its ABCP, new long-term floating rate notes ("Replacement Notes") with a total settlement value of \$2.1 million which the Company has recorded at the estimated fair value of \$1.0 million. In addition, a payment of \$0.1 million from accumulated cash in the conduit trusts was received. This payment was recorded as a reduction in the cost value of the original investment.

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

ABSOLUTE SOFTWARE CORPORATION
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4. DEFERRED CONTRACT COSTS

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
		(restated)
Prepaid sales commissions	\$ 7,185,096	\$ 6,081,205
Other prepaid / accrued contract costs	190,565	218,455
Balance at the end of the year	7,375,661	6,299,660
Less: Current portion	(3,609,944)	(3,086,833)
Long term portion	\$ 3,765,717	\$ 3,212,827

See Note 2(b) for details of the change in accounting policy related to Deferred Contract Costs.

5. PROPERTY AND EQUIPMENT

	<u>June 30, 2009</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 3,799,404	\$ 2,461,341	\$ 1,338,063
Furniture and equipment	1,267,286	773,066	\$ 494,220
Computer software	1,653,937	1,539,048	\$ 114,889
Office equipment	945,919	492,563	\$ 453,356
Trade show equipment	88,909	66,873	\$ 22,036
Leasehold improvements	508,907	287,196	\$ 221,711
	<u>\$ 8,264,362</u>	<u>\$ 5,620,087</u>	<u>\$ 2,644,275</u>
	<u>June 30, 2008</u>		
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>
Computer equipment	\$ 2,903,868	\$ 1,911,742	\$ 992,126
Furniture and equipment	1,060,771	688,219	372,552
Computer software	1,370,187	1,214,686	155,501
Office equipment	654,983	360,301	294,682
Trade show equipment	68,665	54,105	14,560
Leasehold improvements	271,444	129,862	141,582
	<u>\$ 6,329,918</u>	<u>\$ 4,358,915</u>	<u>\$ 1,971,003</u>

ABSOLUTE SOFTWARE CORPORATION
Notes to the Consolidated Financial Statements
Years ended June 30, 2009 and 2008
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6. FUTURE INCOME TAX ASSETS

Income tax expense (recovery) for the years ended June 30, 2009 and 2008 differ from that calculated by applying statutory rates for the following reasons:

	<u>2009</u>	<u>2008</u>
Combined Canadian federal and provincial income tax recoveries at expected rate of 30.25% (2008 - 32.81%)	\$ (5,008,380)	\$ (2,293,917)
Permanent differences	4,920,386	2,185,477
Foreign losses tax effected at lower rates	(888,728)	(80,282)
Benefit of previously unrecognized future income tax assets and change in statutory tax rates	(13,321,211)	1,588,722
Total income tax expense (recovery)	(14,297,933)	1,400,000
Comprised of:		
Current income tax expense	(4,575,000)	(1,400,000)
Future income tax recovery	\$ (18,872,933)	\$ -

The Company recorded an income tax payable for taxes of \$1.6 million, comprised of a provision for income tax expense of \$4.6 million (fiscal 2008: \$1.4 million) offset by a \$3.0 million tax recovery (fiscal 2008: \$1.4 million) for Canadian Investment Tax Credits ("ITC's"). The ITC's were credited against operating expenses, as the credit is generated by certain eligible research and development expenditures. Approximately \$1.4 million of the 2009 income tax expense and the ITC's claimed relate to 2008 true up adjustments.

The tax effect of the significant temporary differences that comprise future income tax assets and liabilities at June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Future tax assets (liabilities):		
Investments	\$ -	\$ 178,072
Property and equipment	235,337	475,518
Deferred revenue	16,093,376	6,953,725
Operating loss carryforwards	2,011,039	3,567,530
Scientific research and experimental development expenditure carryforwards	-	240,221
Accrued warranty	3,228,248	3,392,465
Other	159,594	339,130
Total future tax assets	21,727,594	15,146,661
Valuation allowance	-	(12,292,000)
Balance at the end of the year	21,727,594	2,854,661
Less: current portion	10,646,521	1,341,691
Net future income tax assets	\$ 11,081,073	\$ 1,512,970

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6. FUTURE INCOME TAX ASSETS (continued)

At June 30, 2009, management determined that it was more likely than not that it would realize the full benefit of its future tax assets. This was predicated by a second consecutive year of taxable income in Absolute Software Inc. and deferred revenue that will produce enough taxable income to realize the future income tax assets. The change in valuation allowance resulted in an increase to the future income tax assets by approximately \$18.9 million. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, tax assets and operating loss carry-forwards.

7. INTANGIBLE ASSET

During fiscal 2006, the Company acquired an intangible asset relating to acquisition of the worldwide rights to brand its consumer offering "LoJack for Laptops" for a 10 year period ending June 30, 2015. In addition to an annual and per unit royalty, the Company issued 1,000,000 common share purchase warrants to LoJack Operating Company L.P. The fair value of each warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk free interest rate of 3.25%, dividend yield of 0%, expected life of five years, and volatility of 77%.

	<u>2009</u>	<u>2008</u>
Balance at the beginning of the year	\$ 255,549	\$ 383,324
Less: Amortization	(127,774)	(127,776)
Balance at the end of the year	<u>\$ 127,775</u>	<u>\$ 255,549</u>

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8. ACCRUED WARRANTY AND GUARANTEE

Certain of the Company's theft recovery offerings include a service guarantee, or warranty. The warranty is not separately sold, nor charged, but forms part of the product offering to which it is attached, and accordingly has a term matching that of the product offering which ranges from one to five years. If a computer equipped with a product that includes the recovery guarantee is stolen, and the Company is unable to physically recover the stolen computer using its Computrace software system, or to delete data on the stolen computer, then the customer may be eligible for a warranty payment of up to \$1,000. In order to qualify for the warranty, the customer must comply with the Company's terms and conditions, including the filing of a police report. The amount of the warranty payment decreases in each subsequent year of service and is also limited by the value of the stolen computer.

The Company provides for the estimated warranty liability at the time of recording the related sales contracts that include a guarantee. The impact of changes in the estimated warranty liability based on actual experience and expected warranty payment rates are reflected in the warranty accrual. At June 30, 2009 and 2008, the accrued warranty is as follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u> (restated)
Balance at the beginning of the year	\$ 11,844,593	\$ 8,005,050
Warranty accrual on new sales contracts and changes in estimates on pre-existing sales contracts	1,077,500	4,907,939
Warranty paid	<u>(1,669,923)</u>	<u>(1,068,396)</u>
Balance at the end of the year	11,252,170	11,844,593
Less: Current portion	<u>(5,288,520)</u>	<u>(5,448,513)</u>
Long term portion	<u>\$ 5,963,650</u>	<u>\$ 6,396,080</u>

In fiscal 2009, the warranty accrual was reduced for a change in estimated pay out rates, and for write-off of excess accruals on expired contracts.

9. DEFERRED REVENUE

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

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9. DEFERRED REVENUE (continued)

The following table provides a breakdown of the net deferred revenue balances at June 30, 2009 and 2008:

	June 30, 2009	As at June 30, 2008
		(restated)
Deferred Revenue from Sales Contracts (see 9 (b))	\$ 103,210,166	\$ 87,846,477
Deferred Warranty costs	(7,353,560)	(8,384,144)
Deferred Revenue	95,856,606	79,462,333
Less: Current portion	(46,577,880)	(37,527,453)
Long term portion	\$ 49,278,726	\$ 41,934,880

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

	June 30, 2009	June 30, 2008
Balance, beginning of year	\$ 87,846,477	\$54,243,816
Add: Sales Contracts during the year	71,873,919	72,452,073
Less: Revenue recognized during the year	(53,218,894)	(37,853,404)
Less: Other adjustments	(3,291,336)	(996,008)
Balance, end of year	\$ 103,210,166	\$87,846,477

Sales Contracts represent invoiced subscriptions to the Company's solutions, and are considered a key metric for evaluating Company sales and operational performance. Other adjustments at June 30, 2009 include approximately \$1.1 million of bad debt provisions and a \$2.1 million reversal of a Sales Contract that was included in results for fiscal 2008, both of which were recorded in the first quarter of fiscal 2009. Over one half of the bad debt provisions are due to a second tier PC OEM that declared bankruptcy in late 2008. In addition, given the current economic climate, management increased its general provision for bad debts. The \$2.1 million reversal relates to a fiscal 2008 Sales Contract to a reseller for a government-sector customer that was included in

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9. DEFERRED REVENUE (continued)

accounts receivable and deferred revenue at June 30, 2008. In October 2008, subsequent to the fiscal 2008 year end, the reseller was unable to complete its purchasing process with the end customer, and as a result the reseller cancelled its original order with the Company. The Company had previously deferred all of the revenue relating to this contract, accordingly there was no impact on the Statement of Loss.

10. SHAREHOLDERS' EQUITY

(a) *Authorized*
100,000,000 common shares, no par value
Unlimited preferred shares, Series A, voting, convertible, redeemable

(b) *Issued*

	Number of Common Shares	Number of Warrants	Amount
Balance at June 30, 2007	46,108,978	800,000	\$ 39,094,936
Shares issued on options exercised	1,411,568	-	2,082,424
Shares issued under Employee Share Purchase Plan	91,024	-	537,865
Shares issued on warrants exercised (e)	200,000	(200,000)	200,000
Balance at June 30, 2008	47,811,570	600,000	\$ 41,915,225
Shares issued on options exercised	762,683	-	1,883,263
Shares issued under Employee Share Purchase Plan	177,097	-	784,416
Shares repurchased and cancelled during the year under the Normal Course Issuer Bid	(3,257,000)		(2,793,927)
Shares issued on warrants exercised (e)	200,000	(200,000)	200,000
Balance at June 30, 2009	45,694,350	400,000	\$ 41,988,977

During the year, the Company acquired 3,257,000 common shares at a cost of \$10.6 million pursuant to a normal course issuer bid. The charge to retained earnings for the purchase of common shares in excess of stated capital was \$7,941,156.

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10. SHAREHOLDERS' EQUITY (Continued)

<i>(c) Contributed surplus</i>	2009	2008
Contributed surplus, beginning of year	\$ 11,938,462	\$ 7,814,428
Stock-based compensation expense recorded on Option and Purchase Plans	15,792,738	4,948,972
Transfer to share capital on exercise of options and warrants	(908,225)	(824,938)
Contributed surplus, end of year	\$ 26,822,975	\$ 11,938,462

(d) Stock Options and Employee Share Purchase Plan

The Company's stock-based compensation plans include an employee stock option plan ("Option Plan") and an employee share purchase plan ("Purchase Plan"). For both plans, the Company records the estimated fair value of the stock-based awards as compensation expense over the vesting period with a corresponding credit to contributed surplus. Any consideration paid by employees on exercise of share options or purchase of shares, together with the amount initially recorded in contributed surplus, is credited to share capital.

The 2001 Employee Share Option Plan initially provided for a maximum of 4,065,206 common shares to be allocated to participants. During fiscal 2007, the Company's shareholders approved a resolution to change that maximum share figure to a rolling maximum of 15% of the number of common shares outstanding immediately before the grant of the applicable option. On this basis, the maximum common shares available under the Option Plan was 6,854,152 at June 30, 2009, of which 2,727,025 remain available for grant. The exercise price of each option equals the last closing market price of the Company's shares before the grant date. The term of option grants will not exceed 10 years from the date of grant of the option. Generally, options are granted with a four year vesting period (25% vesting on each anniversary date), and expire two years after each vesting date.

The Company's Employee Share Purchase Plan allows employees to purchase up to 2.0 million common shares from treasury at a 15% discount from the market price. Employees may allocate a maximum of \$10,500 per year to the purchase of common shares from treasury through two six month offering periods per year. During fiscal 2009, 177,097 (2008 - 91,024) common shares were issued from treasury under the Option Plan at a weighted average price of \$4.43 (2008 - \$5.91) per share.

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10. SHAREHOLDERS' EQUITY (Continued)

A summary of the status of the Company's stock option plan as of June 30, 2009 and 2008 is presented below:

	<u>June 30, 2009</u>		<u>June 30, 2008</u>	
	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Share options outstanding, beginning of year	6,169,410	\$ 8.92	5,228,028	\$ 4.07
Exercised	(762,683)	1.15	(1,411,568)	0.89
Forfeited	(3,543,250)	12.83	(306,000)	9.83
Granted during the year	2,263,650	4.51	2,658,950	14.28
Outstanding, end of year	4,127,127	\$ 4.57	6,169,410	\$ 8.92

Exercise Prices	<u>Options Outstanding at June 30, 2009</u>			<u>Options Exercisable at June 30, 2009</u>		
	<u>Number of Stock Options Outstanding</u>	<u>Weighted Average Remaining Contractual Life (years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Stock Options Exercisable</u>	<u>Weighted Average Exercise Price</u>	
\$15.00 to 20.00	29,000	2.87	\$ 19.18	7,250	\$ 19.18	
10.00 to 14.99	546,700	2.81	12.04	183,673	11.95	
5.00 to 9.99	190,750	2.98	7.32	61,750	8.40	
1.50 to 4.99	2,704,400	3.65	3.59	318,500	2.68	
0.50 to 1.49	533,777	1.60	1.13	313,027	1.05	
0.13 to 0.49	122,500	0.94	0.25	122,500	0.25	
	4,127,127	3.15	\$ 4.57	1,006,700	\$ 4.04	

Stock-based compensation

The Company uses the Black-Scholes option pricing model to measure the fair value of employee stock options on the option grant date. The fair value of the stock options is charged to income ratably over the option vesting period. This resulted in a total of \$15.8 million of stock-based compensation expense recorded in operations for the year ended June 30, 2009 (2008 - \$4.9 million). The increased charge was a result of a one-time \$12.0 million non-cash charge for the cancellation of 2.9 million options following a voluntary surrender by the Company's employees.

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10. SHAREHOLDERS' EQUITY (Continued)

The assumptions used in the Black-Scholes model are: no dividends are to be paid, a weighted average volatility of the Company's share price of 60% (2008 - 60% to 71%), an annual risk free interest rate of 0.50 – 3.25% (2008 3.25 – 4.75%) and an expected average life of three years (2008 - three years to four years).

For the Employee Share Purchase Plan, the stock-based compensation charge is determined by the difference between the share purchase price and market price at the start of each purchase period. This resulted in a stock-based compensation charge of \$138,000 recorded in operations for the year end June 30, 2009 (2008 - \$130,000).

(e) Branding Warrants

During fiscal 2006, the Company issued 1,000,000 common share purchase warrants in connection with a 10 year branding agreement entered into with LoJack Operating Company L.P. whereby the Company acquired the rights to use the "LoJack®" brand name for its consumer theft recovery products. Each warrant is exercisable for one common share at an exercise price of \$1.00 per share. The warrants vest 20% per year on June 30, 2006, 2007, 2008, 2009 and May 31, 2010. All unexercised warrants expire the earlier of 2 years after the vesting date, June 30, 2010 or on termination of the agreement. As of June 30, 2009, 600,000 of the warrants have been exercised.

11. RESTRUCTURING CHARGES

Restructuring charges of \$989,000 includes severance and legal costs, the majority of which related to employee terminations carried out in October 2008.

12. CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth to provide returns to its shareholders. The Company does not pay annual dividends and does not hold debt. The Company makes adjustments to its capital structure in light of general economic conditions, the risk characteristics of the underlying assets and the Company's working capital requirements. The Board of Directors reviews and approves any material transactions not in the ordinary course of business, including major investments and forward foreign exchange contracts.

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13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Overview:

The Company is exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth. The main objectives of the Company's risk management process are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal financial risks to which the Company is exposed are described below.

(b) Market risk:

Market risk is the risk that changes in market prices, such as fluctuations in the market prices of the Company's publicly traded investments, foreign exchange rates and interest rates, will affect the Company's income or the value of its financial instruments. The Company does not engage in risk management practices such as hedging, derivatives or short selling with respect to its publicly traded investments.

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company is in a net U.S. dollar asset position and therefore records gains in periods of rising U.S. dollar exchange rates and losses in periods of declining rates. These gains and losses are effectively offset by the exchange impact on operating income. Operating costs are converted at current exchange rates, while revenue is recorded at historic rates from when the Sales Contracts were recorded into deferred revenue, and therefore the operating loss is increased when the U.S. dollar appreciates.

Foreign Currency Sensitivity Analysis:

Sales contracts billed in U.S. dollars by the Company are recorded at the exchange rate in effect at the time of sale, and are collected on standard trade payable terms. Excess U.S. dollar balances are converted to Canadian dollars on a regular basis. The Company typically does not enter foreign currency hedges. Further devaluation in the U.S. dollar relative to the Canadian dollar could impact the Company's ability to continue at current sales growth rates and margins as substantially all Sales Contracts are denominated in U.S. dollars.

The Company is exposed to fluctuations in the U.S. dollar, through U.S. dollar accounts receivables which are revalued quarterly and U.S. dollar denominated operating expenses. The Company's sensitivity to a 1% strengthening of the U.S. dollar against the Canadian dollar is an approximate reduction of \$70,000 on operating income and an approximate \$10,000 increase to net income. For a 1% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on net income. The sensitivity analysis includes foreign currency denominated monetary assets and liabilities and adjusts their translation at period end for a 1% change in foreign currency rates.

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13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(c) Liquidity Risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company mitigates liquidity risk by holding sufficient cash and cash equivalents to meet its financial obligations. The Company's growth is financed through cash on hand and cash flows from operations. The majority of the Company's financial liabilities recorded in accounts payable and accrued liabilities are due within 60 days.

Given the Company's available liquid resources as compared to the timing of the payments of liabilities, management assesses the Company's liquidity risk to be low.

(d) Credit Risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company. The carrying amount of the Company's financial assets represents the Company's maximum credit exposure.

The Company manages credit risk related to accounts receivable by maintaining reserves for potential credit losses. The majority of the accounts receivable balance is due from well-capitalized computer manufacturers who have a history of paying on a timely basis. Over half of the Company's bad debt provisions relate to a second tier PC OEM that declared bankruptcy in late 2008. As at June 30, 2009, 18% of the Company's accounts receivable balance is over 90 days past due as compared to 7% at June 30, 2008. The reason for the increased percentage is due to slow payment by several partners at June 30, 2009, most of which were subsequently paid in July. Accounts receivable are net of allowance for doubtful accounts of \$2.4 million (June 30, 2008 - \$715,000). As at June 30, 2009, 25% and 16% (29% and 13% as at June 30, 2008) of the net receivables balances are owing from two OEM partners.

The Company manages credit risk related to cash by maintaining bank accounts with Schedule 1 banks.

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13. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (continued)

(e) Financial Instruments:

(i) Classification of Financial Instruments

	Classification	Measurement
Cash and cash equivalents	Held for trading	Fair value
Short-term investments - bonds	Held-to-maturity	Amortized cost
Short-term investments - marketable securities	Held for trading	Fair value
Accounts receivables	Loans and receivables	Amortized cost
Investments - bonds	Held-to-maturity	Amortized cost
Investments - Replacement Notes	Held for trading	Fair value
Forward contracts	Held for trading	Fair value
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

(ii) Fair Values of Financial Instruments

The carrying value of cash and cash equivalents, short term investments, accounts receivable, accounts payables and accrued liabilities approximate their fair values due to the short-term nature of these instruments. The carrying value of the warranty liability is higher than its fair value due to the fact that the payments will be made over time and the liability is not discounted to present value.

The carrying value of the marketable securities which are publicly traded (included in short term investments) are determined by the quoted market values for the investment (Note 3).

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14. SEGMENT INFORMATION

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

	<u>2009</u>	<u>2008</u>
Revenue		
United States	\$ 49,513,693	\$ 35,712,147
Canada and rest of world	3,705,201	2,141,257
Total	<u>\$ 53,218,894</u>	<u>\$ 37,853,404</u>
Long Lived Assets		
Canada	\$ 2,275,579	\$ 2,158,666
United States and rest of world	496,471	67,886
Total	<u>\$ 2,772,050</u>	<u>\$ 2,226,552</u>

15. COMMITMENTS

The Company has future minimum payments under operating leases to November 30, 2013, and under a branding agreement to June 30, 2015 (Note7) as follows:

Year ending June 30,	
2010	\$ 1,639,187
2011	1,633,005
2012	1,657,251
2013	1,664,076
2014	923,167
Future years	178,150
	<u>\$ 7,694,836</u>

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16. CONTINGENCIES

By virtue of its patent portfolio, the Company has been the initiating party with respect to assertions and claims of patent infringement in two current cases. The three cases are as follows:

Absolute Software, Inc. v. Stealth Software, Inc., pending in the United States District Court for the Southern District of Texas, Case No. H-05-1416. As a result of a counterclaim in that suit, Absolute is also defendant to a patent infringement claim. Management and its expert advisors believe that the counterclaim is without merit, and accordingly no provision or contingency has been recorded in the financial statements. The special masters report from a claim construction hearing (“Markman hearing”) was accepted in June 2009. Based on the accepted Markman ruling, the Company will likely submit motions for summary judgment of infringement of its patents and non-infringement and invalidity of Stealth asserted patent, which if granted, will clarify many issues concerning infringement and validity. Depending upon the outcome of the summary judgment motions, the court may set a date for jury trial.

Absolute Software, Inc. v Brigadoon Software, Inc., Case No. 05 CV 3273. The case was stayed pending the Texas court’s claim construction ruling in the Stealth litigation referenced above but is expected to resume in the coming months.

Finally, Absolute Software, Inc. v World Computer Security Corporation and Front Door Software Corporation, Case No. 1:09 CV 00142. In response to Absolute’s complaint, the defendants filed a motion to dismiss for lack of jurisdiction or alternatively to transfer venue.

While management believes that Absolute will prevail in these three cases, the outcome, time to resolution and impact on our business and patent portfolio, if any, cannot be determined at this time. The actual resolution of any matter before the courts, whether at a final or interlocutory stage, may differ materially as a result of future rulings issued by such courts; therefore, as additional information becomes available, management continually re-assesses the potential liability relating to pending litigation, if any.

17. RELATED PARTY TRANSACTIONS

On October 10, 2008, the Company entered into a related party transaction with Mr. Christian Cotichini, who was a member of Absolute’s Board of Directors at the time. A secured amount of \$1.1 million was loaned to Mr. Cotichini in order to avoid the broker’s margin selling of Mr. Cotichini’s Absolute stock during a company imposed trading blackout. The loan carried interest at prime plus 5% and was repaid in full during the quarter ended March 31, 2009.
