

Interim Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

For the three months ended September 30, 2009 and 2008

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian dollars) (Unaudited)

		As At	
	Notes	September 30, 2009	June 30, 2009
ASSETS			
CURRENT			
Cash and cash equivalents	(Note 3)	\$ 48,167,419	\$ 56,078,004
Short-term investments	(Note 3)	1,572,973	8,743,861
Accounts receivable, net of allowance for doubtful accounts of \$1,846,000 (2009 - \$2,387,000)		11,750,674	15,570,780
Prepaid expenses and other		999,769	974,564
Current portion of deferred contract costs	(Note 4)	3,709,740	3,609,944
Current portion of future income tax assets	(Note 5)	11,401,121	10,646,521
		77,601,696	95,623,674
INVESTMENTS	(Note 3)	24,184,865	4,076,211
DEFERRED CONTRACT COSTS	(Note 4)	3,833,090	3,765,717
PROPERTY AND EQUIPMENT		2,612,558	2,644,275
FUTURE INCOME TAX ASSETS	(Note 5)	11,866,473	11,081,073
INTANGIBLE ASSET		95,831	127,775
		\$ 120,194,513	\$ 117,318,725
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 4,547,802	\$ 6,775,466
Income tax payable	(Note 5)	3,035,000	1,575,000
Current portion of accrued warranty	(Note 6)	5,508,798	5,288,520
Current portion of deferred revenue, net	(Note 7)	48,688,514	46,577,880
		61,780,114	60,216,866
ACCRUED WARRANTY	(Note 6)	6,212,048	5,963,650
DEFERRED REVENUE, NET	(Note 7)	50,939,843	49,278,726
		118,932,005	115,459,242
SHAREHOLDERS' EQUITY			
Share capital and other equity	(Note 8 (a))	43,205,993	41,988,977
Contributed surplus	(Note 8 (b))	27,044,642	26,822,975
Deficit		(68,988,127)	(66,952,469)
		1,262,508	1,859,483
		\$ 120,194,513	\$ 117,318,725

APPROVED ON BEHALF OF THE BOARD:

"John Livingston"

Director

"J Ian Giffen"

Director

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Loss and Comprehensive Loss
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

	Notes	2009	2008
REVENUE		\$ 15,047,060	\$ 12,109,048
COST OF GOODS SOLD		3,754,413	3,323,685
GROSS MARGIN		11,292,647	8,785,363
EXPENSES			
Sales and marketing		8,169,768	6,924,218
Research and development		1,629,108	1,702,988
General and administration		1,916,999	1,719,761
Investment tax credits		(250,000)	-
Stock-based compensation		586,461	1,560,327
		12,052,336	11,907,294
OPERATING LOSS		(759,689)	(3,121,931)
OTHER INCOME (EXPENSE)			
Interest and bank charges		157,707	452,143
Foreign exchange gain (loss)		(1,399,246)	916,148
Unrealized gain (loss) on investment	(Note 3)	135,570	(424,089)
		(1,105,969)	944,202
LOSS FOR PERIOD BEFORE INCOME TAXES		(1,865,658)	(2,177,729)
INCOME TAX EXPENSE	(Note 5)	(170,000)	-
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD		(2,035,658)	(2,177,729)
DEFICIT, BEGINNING OF PERIOD		(66,952,469)	(56,752,618)
DEFICIT, END OF PERIOD		\$ (68,988,127)	\$ (58,930,347)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.04)	\$ (0.05)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED		45,920,705	47,949,560

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Cash Flows

Three months ended September 30, 2009 and 2008

(Expressed in Canadian dollars) (Unaudited)

	Notes	2009	2008
OPERATING ACTIVITIES			
Net loss for the period		\$ (2,035,658)	\$ (2,177,729)
Items not involving cash			
Amortization of property and equipment		302,638	229,808
Stock-based compensation		586,461	1,560,327
Amortization of intangible asset		31,944	31,943
Future income taxes	(Note 5)	(1,540,000)	-
Unrealized loss (gain) on investment	(Note 3)	(135,570)	424,089
Change in non-cash operating working capital			
Accounts receivable		3,820,106	5,815,815
Prepaid expenses and other		(25,205)	82,987
Deferred contract costs		(167,169)	(223,249)
Accounts payable and accrued liabilities		(2,227,664)	(276,785)
Income tax payable	(Note 5)	1,460,000	-
Accrued warranty		468,676	859,958
Deferred revenue		3,771,752	2,765,572
CASH FROM OPERATING ACTIVITIES		4,310,311	9,092,736
INVESTING ACTIVITIES			
Property and equipment purchased		(270,922)	(705,899)
Proceeds from maturities of short term investments		7,306,458	1,570,571
Purchases of short term investments		-	(704,876)
Purchases of investments		(20,108,654)	(2,438,554)
CASH USED IN INVESTING ACTIVITIES		(13,073,118)	(2,278,758)
FINANCING ACTIVITIES			
Issuance of common shares		852,222	893,661
CASH FROM FINANCING ACTIVITIES		852,222	893,661
NET CASH (OUTFLOW) INFLOW		(7,910,585)	7,707,639
CASH AND CASH EQUIVALENTS,			
BEGINNING OF PERIOD		56,078,004	46,460,299
CASH AND CASH EQUIVALENTS,			
END OF PERIOD		\$ 48,167,419	\$54,167,938
COMPOSITION OF CASH AND CASH EQUIVALENTS:			
Cash		\$ 10,645,965	\$ 6,983,250
Cash equivalents		37,521,454	47,184,688
		\$ 48,167,419	\$54,167,938
SUPPLEMENTAL CASH FLOW INFORMATION:			
Income taxes paid		\$ 237,367	\$ 111,121
Interest paid		-	-

See accompanying Notes to the Unaudited Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation:

These unaudited consolidated financial statements present the financial position, results of operations, changes in shareholders' equity and cash flows of Absolute Software Corporation (the "Company") and its subsidiaries. All significant intercompany balances have been eliminated.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") applicable to interim financial information and are based on accounting principles and practices consistent with those used in the preparation of the annual consolidated financial statements. The financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principles. The interim financial statements should be read in conjunction with the June 30, 2009 audited consolidated financial statements. Certain prior year amounts have been reclassified in order to conform to the 2010 presentation.

(b) Deferred revenue and revenue recognition

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

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

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

Foreign denominated Sales Contracts are recorded at the Canadian dollar equivalent based on the average exchange rate in the month the sale occurred. The average U.S. dollar exchange rate for the Company's Sales Contracts was \$1.0970 for Q1 Fiscal 2010 and \$1.0445 for Q1 Fiscal 2009.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

2. CHANGES IN ACCOUNTING POLICIES

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 7). 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.

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

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

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

	Cost and Recorded Basis			Allocation for Balance Sheet		
	Cost Basis	Unrealized Losses	Recorded Basis	Cash and Cash Equivalents	Short-Term Investments	Long-Term Investments
As at September 30, 2009						
Bank balances and term deposits	48,459,674		48,459,674	48,167,419	292,255	
Replacement Notes (ABCP)	2,015,033	(1,032,920)	982,113			982,113
Investment Grade Securities	23,202,752		23,202,752		-	23,202,752
Marketable securities	2,434,037	(1,153,319)	1,280,718		1,280,718	
	76,111,496	(2,186,239)	73,925,257	48,167,419	1,572,973	24,184,865
As at June 30, 2009						
Bank balances and term deposits	57,655,453		57,655,453	56,078,004	1,577,449	
Replacement Notes (ABCP)	2,015,033	(1,032,920)	982,113			982,113
Investment Grade Securities	9,115,362		9,115,362		6,021,264	3,094,098
Marketable securities	2,434,037	(1,288,889)	1,145,148		1,145,148	
	71,219,885	(2,321,809)	68,898,076	56,078,004	8,743,861	4,076,211

For the three months ended September 30, 2009, the Company recorded an unrealized gain in the amount of \$136,000 for its holdings of marketable securities.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

4. DEFERRED CONTRACT COSTS

	As at	
	September 30, 2009	June 30, 2009
Prepaid sales commissions	\$ 7,341,653	\$ 7,185,096
Prepaid royalties	201,177	190,565
Balance at the end of the period	7,542,830	7,375,661
Less: Current portion	(3,709,740)	(3,609,944)
Long term portion	\$ 3,833,090	\$ 3,765,717

5. INCOME TAXES

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

For the three months ended September 30, 2009, the Company recorded a current tax expense of \$1.7 million and a future income tax recovery of \$1.5 million, based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2009. As of September 30, 2009, the Company had total net future tax assets of \$23.3 million (\$21.7 million as of June 30, 2009), primarily related to deferred revenue balances, and current income taxes payable of \$3.0 million (\$1.6 million at June 30, 2009).

6. ACCRUED WARRANTY AND GUARANTEE

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

	As at	
	September 30, 2009	June 30, 2009
Balance at the beginning of the period	\$ 11,252,170	\$ 11,844,593
Warranty accrual on new sales contracts	* 1,174,518	1,077,500
Warranty claims paid	* (705,842)	(1,669,923)
Balance at the end of the period	11,720,846	11,252,170
Less: Current portion	(5,508,798)	(5,288,520)
Long term portion	\$ 6,212,048	\$ 5,963,650

* For 3 months ended September 30, 2009 and 12 months ended June 30, 2009.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

7. DEFERRED REVENUE

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

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

	September 30, 2009	As at June 30, 2009
Deferred Revenue from Sales Contracts (see 7(b))	\$ 107,057,147	\$ 103,210,166
Deferred Warranty costs	(7,428,790)	(7,353,560)
Deferred Revenue	99,628,357	95,856,606
Less: Current portion	(48,688,514)	(46,577,880)
Long term portion	\$ 50,939,843	\$ 49,278,726

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

	September 30, 2009	June 30, 2009
Balance, beginning of period	\$ 103,210,166	\$ 87,846,477
Add: Sales Contracts during the period	19,229,280	71,873,919
Less: Revenue recognized during the period	(15,047,059)	(53,218,894)
Less: Other adjustments	(335,239)	(3,291,336)
Balance, end of period	\$ 107,057,147	\$ 103,210,166
Less: Current portion	(52,698,959)	(50,504,028)
Long term portion	\$ 54,358,188	\$ 52,706,138

* For 3 months ended September 30, 2009 and 12 months ended June 30, 2009.

Sales Contracts represent invoiced subscriptions to the Company’s solutions, and are considered a key metric for evaluating Company sales and operational performance. Other adjustments reflected in the year ended June 30, 2009 reconciliation include \$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 during the three months ended September 30, 2008.

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

8. SHAREHOLDERS' EQUITY

(a) Issued

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2009	45,694,350	400,000	\$ 41,988,977
Shares issued for cash on options exercised (c)	133,527	-	601,813
Shares issued for cash under Employee Share Purchase Plan ("ESPP")	147,759	-	415,203
Shares issued for cash on warrants exercised	200,000	(200,000)	200,000
Balance September 30, 2009	46,175,636	200,000	\$ 43,205,993

(b) Contributed surplus

	As at September 30, 2009	June 30, 2009
Contributed surplus, beginning of period	\$ 26,822,975	\$ 11,938,462
Stock-based compensation expense recorded on options and ESPP	* 586,461	15,792,738
Transfer to share capital on exercise of options and warrants	* (364,794)	(908,225)
Contributed surplus, end of period	\$ 27,044,642	\$ 26,822,975

* For 3 months ended September 30, 2009 and 12 months ended June 30, 2009.

(c) Stock options

The maximum number of shares issuable under the Employee Share Option Plan at September 30, 2009 was 6,926,345. During the three month period ended September 30, 2009, changes in the total share options outstanding were:

Share options outstanding, beginning of period	4,127,127
Exercised during the period	(133,527)
Forfeited during the period	(42,800)
Granted during the period	90,000
Outstanding, end of period	4,040,800
Weighted average exercise price at September 30, 2009	\$ 4.66
Weighted average term remaining at September 30, 2009	3.0
Number of options exercisable at September 30, 2009	1,095,298
Weighted average price of exercisable options	\$ 4.08

ABSOLUTE SOFTWARE CORPORATION
Notes to the Interim Consolidated Financial Statements
Three months ended September 30, 2009 and 2008
(Expressed in Canadian dollars) (Unaudited)

9. SEGMENTED 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 fixed assets and intangible assets.

	Three months ended September 30,	
	2009	2008
Revenue		
United States	\$ 14,056,342	\$ 11,291,226
Canada and International	990,718	817,822
Total	<u>\$ 15,047,060</u>	<u>\$ 12,109,048</u>
	As at	
	September 30,	June 30,
	2009	2009
Long Lived Assets		
Canada	\$ 2,182,540	\$ 2,275,579
United States and International	525,849	496,471
Total	<u>\$ 2,708,389</u>	<u>\$ 2,772,050</u>