

Auditors' Report and Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

June 30, 2011 and 2010

Independent Auditor's Report

To the Shareholders of Absolute Software Corporation

We have audited the accompanying consolidated financial statements of Absolute Software Corporation, which comprise the consolidated balance sheets as at June 30, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, changes in shareholders' deficiency, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Absolute Software Corporation as at June 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "Deloitte & Touche, LLP"

Chartered Accountants
Vancouver, British Columbia
August 18, 2011

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

June 30, 2011 and 2010

(Expressed in Canadian dollars)

	Notes	June 30, 2011	June 30, 2010
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 28,805,213	\$ 28,078,851
Short-term investments	(Note 5)	6,717,387	6,420,210
Accounts receivable, net of allowance for doubtful accounts of \$1,409,000 (2010 - \$1,935,000)		15,599,349	13,888,239
Prepaid expenses and other		1,541,225	1,149,428
Current portion of deferred contract costs	(Note 6)	4,392,364	4,038,159
Current portion of future income tax assets	(Note 12)	9,973,479	9,904,709
		67,029,017	63,479,596
INVESTMENTS	(Note 5)	18,234,407	23,527,677
DEFERRED CONTRACT COSTS	(Note 6)	3,840,284	3,744,051
PROPERTY AND EQUIPMENT	(Note 7)	2,114,704	2,754,271
FUTURE INCOME TAX ASSETS	(Note 12)	10,387,213	10,308,983
INTANGIBLE ASSETS	(Note 8)	15,061,026	20,477,801
		\$ 116,666,651	\$ 124,292,379
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 8,456,941	\$ 8,183,219
Income tax payable	(Note 12)	-	1,575,000
Current portion of acquisition payable	(Note 3)	1,666,916	1,728,607
Current portion of accrued warranty	(Note 9)	4,457,446	4,702,888
Current portion of deferred revenue, net	(Note 10)	55,355,122	52,411,595
		69,936,425	68,601,309
ACQUISITION PAYABLE	(Note 3)	1,677,698	3,457,214
ACCRUED WARRANTY	(Note 9)	4,282,644	4,518,461
DEFERRED REVENUE, NET	(Note 10)	53,995,248	50,346,988
		129,892,015	126,923,972
COMMITMENTS	(Note 17)		
CONTINGENCIES	(Note 18)		
SHAREHOLDERS' DEFICIENCY			
Share Capital	(Note 11(b))	45,245,075	44,888,407
Contributed Surplus		30,925,971	28,393,491
Deficit		(89,396,410)	(75,913,491)
		(13,225,364)	(2,631,593)
		\$ 116,666,651	\$ 124,292,379

See accompanying notes to the Consolidated Financial Statements.

Approved on behalf of the Board:

(signed) "John Livingston"
John Livingston, Director

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

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Operations and Comprehensive Loss

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

	Notes	2011	2010
REVENUE		\$ 72,198,733	\$ 64,075,789
COST OF REVENUE		18,891,474	14,903,452
GROSS MARGIN		53,307,259	49,172,337
OPERATING EXPENSES			
Sales and marketing		33,044,846	34,669,371
Research and development		11,641,015	10,374,545
General and administration		7,980,932	7,707,016
Investment tax credits		(3,208,000)	(1,255,000)
Stock-based compensation	(Note 11)	2,783,899	2,085,977
		52,242,692	53,581,909
OPERATING INCOME (LOSS)		1,064,567	(4,409,572)
OTHER EXPENSE			
Interest income, net		742,573	699,239
Foreign exchange loss		(1,756,078)	(1,772,780)
Gain on investments	(Note 5)	287,499	98,134
		(726,006)	(975,407)
NET INCOME (LOSS) BEFORE INCOME TAXES		338,561	(5,384,979)
INCOME TAX EXPENSE	(Note 12)	(1,486,000)	(2,768,902)
NET LOSS AND COMPREHENSIVE LOSS		\$ (1,147,439)	\$ (8,153,881)
BASIC AND DILUTED LOSS PER SHARE		\$ (0.03)	\$ (0.18)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	(Note 11(h))	44,983,784	46,346,964

See accompanying notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Changes in Shareholders' Deficiency

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

	Share Capital				Total
	Number of Common shares	Amount	Contributed Surplus	Deficit	
BALANCE, JUNE 30, 2009	45,694,350	\$ 41,988,977	\$ 26,822,975	\$ (66,952,469)	\$ 1,859,483
Shares issued on options exercised	741,552	1,659,071	(259,911)	-	1,399,160
Shares issued under Employee Share Purchase Plan	231,188	786,895	-	-	786,895
Shares repurchased and cancelled under the Normal Course Issuer Bid	(238,000)	(202,086)	-	(807,141)	(1,009,227)
Shares issued on warrants exercised	400,000	655,550	(255,550)	-	400,000
Stock-based compensation expense	-	-	2,085,977	-	2,085,977
Net loss	-	-	-	(8,153,881)	(8,153,881)
BALANCE, JUNE 30, 2010	46,829,090	\$ 44,888,407	\$ 28,393,491	\$ (75,913,491)	\$ (2,631,593)
Shares issued on options exercised	296,775	715,889	(251,419)	-	464,470
Shares issued under Employee Share Purchase Plan	184,987	619,934	-	-	619,934
Shares repurchased and cancelled under the Normal Course Issuer Bid	(3,797,020)	(1,855,822)	-	(12,335,480)	(14,191,302)
Shares issued on acquisition	166,667	876,667	-	-	876,667
Stock-based compensation expense	-	-	2,783,899	-	2,783,899
Net loss	-	-	-	(1,147,439)	(1,147,439)
BALANCE, JUNE 30, 2011	43,680,498	\$ 45,245,075	\$ 30,925,971	\$ (89,396,410)	\$ (13,225,364)

See accompanying Notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Cash Flows

Years ended June 30, 2011 and 2010
(Expressed in Canadian dollars)

	Notes	2011	2010
OPERATING ACTIVITIES			
Net loss		\$ (1,147,439)	\$ (8,153,881)
Items not involving cash			
Amortization of property and equipment		1,668,617	1,366,800
Amortization of intangible assets		5,579,118	2,737,602
Stock-based compensation	(Note 11)	2,783,899	2,085,977
Future income taxes	(Note 12)	(147,000)	1,513,902
Gain on investments	(Note 5)	(287,499)	(98,134)
Unrealized foreign exchange gain		(135,137)	-
Non-cash interest and amortization of investment premium		519,551	(670,295)
Change in non-cash working capital			
Accounts receivable		(819,407)	2,114,406
Prepaid expenses and other		(391,797)	(174,864)
Deferred contract costs		(450,438)	(406,549)
Accounts payable and accrued liabilities		808,181	1,636,073
Income tax payable	(Note 12)	(1,575,000)	-
Accrued warranty		(481,259)	(2,030,821)
Deferred revenue		6,591,789	6,521,658
CASH FROM OPERATING ACTIVITIES		12,516,179	6,441,874
INVESTING ACTIVITIES			
Purchase of property and equipment		(1,082,123)	(1,388,566)
Acquisition of LANrev	(Note 3)	(872,333)	(10,288,400)
Purchase of intangible assets	(Note 4)	(162,342)	(7,223,287)
Proceeds from maturities of short-term investments		6,428,986	8,685,644
Purchase of short-term investments		(712,708)	(5,468,009)
Proceeds from maturities of investments	(Note 5)	-	1,304,228
Purchase of investments		(909,306)	(20,881,249)
CASH FROM (USED IN) INVESTING ACTIVITIES		2,690,174	(35,259,639)
FINANCING ACTIVITIES			
Repurchase of common shares for cancellation	(Note 11(b))	(14,226,844)	(1,009,227)
Issuance of common shares	(Note 11(b))	1,084,405	2,586,055
CASH (USED IN) FROM FINANCING ACTIVITIES		(13,142,439)	1,576,828
FOREIGN EXCHANGE EFFECT ON CASH		(1,337,552)	(758,216)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		726,362	(27,999,153)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		28,078,851	56,078,004
CASH AND CASH EQUIVALENTS, END OF YEAR		\$ 28,805,213	\$ 28,078,851

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 14)

See accompanying notes to the Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS

Absolute Software Corporation (the "Company") was incorporated under the Company Act (British Columbia) on November 24, 1993. The Company's principal business activities are the development, marketing, and support of computer security and end-point management services and products. All of the Company's services and products are powered by its proprietary and patented Computrace and Absolute Manage software systems. The Company markets its services and products through computer original equipment manufacturers ("OEMs"), distributors, value added resellers, and directly to its customers, who include corporations, government entities, educational institutions, and consumers. While the Company's products are available internationally through resellers in Europe, Australia, South Africa, South America, and the Asia Pacific region, the 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.), Absolute Software EMEA Ltd. (U.K.), Absolute Technology GmbH (Germany), Absolute Software K.K. (Japan), Absolute Software (Asia) Pte. Ltd. (Singapore), Computer Recovery, Inc. (U.S.), and 609713 B.C. Limited. All intercompany balances and transactions have been eliminated upon consolidation.

(b) *Significant Accounting Policies*

Use of estimates

The preparation of financial statements in conformity with GAAP requires the Company's management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Significant estimates are used in determining, but are not limited to, the assessment of the carrying values of allowances for unrecoverable accounts receivable and long-lived assets, and the valuation of stock-based compensation, warrants, accrued warranty liabilities, future income tax assets, and the fair value of assets and liabilities acquired in business combinations and asset acquisitions. Actual results could differ from those estimates.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions and translation

The Company's functional currency is the Canadian dollar. Transaction amounts denominated in foreign currencies are translated into Canadian dollars at exchange rates prevailing at the time of the transaction. Carrying values of monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the rate of exchange in effect at the balance sheet date with any resulting gain or loss being reflected in the statement of operations.

The operations of integrated subsidiaries not reporting in Canadian dollars 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 translation gains and losses are included in the statement of operations.

Financial Instruments

The Company's classification and measurement basis of its financial instruments are as follows:

Instrument	Classification	Measurement Basis
Cash and cash equivalents	Held for trading	Fair value
Short-term investments – <i>interest-bearing securities</i>	Held to maturity	Amortized cost
Short-term investments – <i>marketable securities</i>	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Investments – <i>interest-bearing securities</i>	Held to maturity	Amortized cost
Investments – <i>Replacement Notes</i>	Held for trading	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Acquisition payable	Other liabilities	Amortized cost
Accrued warranty	Other liabilities	Amortized cost

Changes in items carried at fair value are recorded in the statement of operations. All amounts carried at amortized cost are calculated using the effective interest rate method.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statement of operations.

The Company classifies and discloses fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – Valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 – Valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Cash and cash equivalents

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.

Short-term investments and investments

Short-term investments consist of highly liquid short-term interest bearing securities with maturities at the date of purchase of greater than three months, but less than one year, and of other marketable securities.

Investments consist of highly liquid interest bearing securities with maturities at the date of purchase of greater than one year and of long-term notes (“Replacement Notes”) issued in exchange for illiquid non-bank Asset Backed Commercial Paper.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred contract costs

The Company sells fixed-length service contracts (“Sales Contracts”) with monitoring and theft recovery terms ranging from one to five years. Sales commissions directly associated with Sales Contracts are deferred and amortized ratably to sales and marketing over the contract term in the statement of operations.

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:

Asset	
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 are reviewed for impairment when events or changes in circumstances indicate that their 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 assets

Intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values. Intangible assets related to brand acquisition rights are recorded at fair values, based on the Black-Scholes fair value attributable to common share purchase warrants issued in order to acquire the asset. All the Company’s intangible assets have finite useful lives and are amortized using the straight line method over the following estimated useful lives:

Asset	
Acquired software – LANrev (Note 3)	5 years
Customer relationships – LANrev (Note 3)	5 years
Acquired software – FailSafe and Freeze (Note 4)	3 years
Acquired brand – LoJack warrants	5 years

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets are reviewed for impairment when events or changes in circumstances indicate that their 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 loss carryforwards and 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 the statement of operations.

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 periodically evaluated and if realization is not considered more likely than not, a valuation allowance is provided for all or a portion of the value.

Revenue recognition

The Company sells services and products including computer theft recovery, secure asset tracking, and end-point management. Revenues are recognized when a contractual arrangement is in place, the fee is fixed and determinable, the services and products have been delivered, and collectability is reasonably assured. Amounts invoiced but not yet earned are recorded as deferred revenue.

The Company's principal source of revenue results from Sales Contracts for the above services, with subscription terms ranging from one to five years. The full value of each Sales Contract is invoiced and receivable upon execution of the contract, delivery of the products and initiation of the services. Typically, Sales Contracts are comprised of multiple elements, including software, monitoring, theft recovery, and maintenance and support services over the term, which are not separable for accounting purposes. As a result, revenue from Sales Contracts is recognized ratably over the subscription term. Direct costs associated with Sales Contracts are deferred and amortized over the same period (see "Deferred Contract Costs" above).

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Company obtains 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.

Deferred revenue is comprised of the remaining unamortized balance of Sales Contracts sold, net of the related deferred warranty costs (see "Accrued Warranty and Guarantee" below).

Accrued warranty and guarantee

The Company provides a service guarantee, or warranty, on certain of its theft recovery offerings. 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. If a computer equipped with a product that includes the recovery guarantee is stolen, and the Company is unable to either recover the stolen computer, or delete data on it, then the customer may be eligible for a guarantee payment of up to \$1,000. In order to qualify for the warranty, the customer must comply with the Company's terms and conditions included in its End User Service Agreement, including the filing of a police report amongst other criteria. The amount of the eligible warranty payment decreases in each year of the service contract and is also limited by the value of the stolen computer.

This service guarantee is accounted for as a warranty liability, and is recorded at the time the related Sales Contract is signed based on the amount of estimated costs that will be incurred under the guarantee. The warranty liability is estimated based on a number of factors, including historical warranty experience, and computer theft and theft recovery rates. The liability balance is drawn down by service guarantee payments issued, and is adjusted on a periodic basis for changes in future estimated warranty payment rates and actual historic experience.

The initial warranty expense is deferred and offset against deferred revenue and is amortized ratably to cost of sales over the contract term in the statement of operations. Periodic adjustments related to unamortized warranty costs are recorded in deferred revenue, with the remainder recorded directly in cost of sales.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Research and development costs

Research and development activities are separated into a research phase and a development phase when feasible. Research costs are charged to operations when they are incurred. Development costs are capitalized as intangible assets when the Company can demonstrate that the technical feasibility of the project has been established; the Company intends to complete the asset for use or sale and has the ability to do so; the asset can generate probable future economic benefits; that technical and financial resources are available to complete the development; and the Company can reliably measure the expenditure attributable to the intangible asset during its development. At June 30, 2011, the Company has not capitalized any development costs.

Stock-based compensation plans

The Company has a stock option plan and an employee share purchase plan, which are described in Notes 11(c) and 11(d). When stock or stock options are issued to employees, 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. Upon exercise of stock options or purchase of common shares, any consideration paid by employees, together with the amount previously recorded in contributed surplus, is credited to share capital.

Under 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.

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 loss per share is equal to basic loss per share. Diluted earnings per share is calculated using the treasury stock method, which assumes that cash that would be received on the exercise of stock options or warrants is applied to purchase shares at the average price during the year. The difference between the shares issued on the exercise of the stock options or warrants and the number of shares purchased under this computation, on a weighted average basis, is added to the number of shares outstanding. Anti-dilutive stock options are not considered in computing diluted earnings per share. Stock options and warrants are typically dilutive when the Company has income for the year and the average market price of the common shares during the year exceeds the exercise price of the options and warrants.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) *Comparative financial information*

Certain costs previously allocated to cost of revenue and sales and marketing are now reported in research and development. This reclassification had the following impact:

	<u>Year ended June 30, 2010</u>
Cost of revenue	
As originally reported	\$ 15,709,686
As recast	\$ 14,903,452
Sales and marketing	
As originally reported	\$ 36,205,179
As recast	\$ 34,669,371
Research and development	
As originally reported	\$ 8,032,503
As recast	\$ 10,374,545

In addition, the Company has reclassified immaterial errors in its consolidated statements of cash flows for the year ended June 30, 2010, related to the classification of the effect of foreign exchange rate changes on non-cash working capital, and cash and cash equivalents. The reclassification moved the foreign exchange impact from affected non-cash working capital balances to be presented as "Foreign Exchange Effect on Cash". In addition, certain immaterial non-cash investing activities (Note 14) have been reclassified in the consolidated statement of cash flows. As a result of these reclassifications, there was no impact on the previously reported net change in cash and cash equivalents, net loss, net loss per common share, or financial position for the year ended June 30, 2010. These reclassifications had the following impact:

	<u>Year ended June 30, 2010</u>
Cash from operating activities	
As originally reported	\$ 6,425,183
As recast	\$ 6,441,874
Cash used in investing activities	
As originally reported	\$ (36,001,164)
As recast	\$ (35,259,639)

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) *Adoption of Future Accounting Standards*

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

In December 2009, the CICA issued Emerging Issues Committee Abstract ("EIC") 175, "*Multiple Deliverable Revenue Arrangements*", replacing EIC 142, "*Revenue Arrangements with Multiple Deliverables*". This abstract was amended to (1) exclude from the application of the updated guidance those arrangements that would be accounted for in accordance with ASC 985-605 (formerly Financial Accounting Standards Board Statement of Position 97-2), "*Software Revenue Recognition*" as amended by Accounting Standards Update 2009-14; (2) provide updated guidance on whether multiple deliverables exist, how the deliverables in an arrangement should be separated, and the consideration allocated; (3) require in situations where a vendor does not have vendor-specific objective evidence or third-party evidence of selling price, that the entity allocate revenue in an arrangement using estimated selling prices of deliverables; (4) eliminate the use of the residual method and require an entity to allocate revenue using the relative selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

3. ACQUISITION OF LANREV

On December 2, 2009, the Company acquired certain assets and operations of Pole Position Software GmbH, a software company specializing in end-point and systems management software. Pole Position's sole product was LANrev ("LANrev"), a comprehensive, cross-platform end-point and computer asset management software solution.

The purchase of the assets was accounted for as a business combination, with the Company being identified as the acquirer. The results of the acquired LANrev business were included in the Company's results of operations from the purchase date of December 2, 2009.

The aggregate purchase price of \$15,474,221 was comprised of cash and 500,000 common shares of the Company, as follows:

Cash	\$ 12,624,043
Common shares	2,630,000
Acquisition costs	220,178
	<u>\$ 15,474,221</u>

Of the above, \$2,555,821 (USD \$2,500,000) and the 500,000 common shares were deferred consideration, with each amount payable in equal one-third installments annually on the first three anniversary dates of the acquisition. The fair value of the common shares to be issued of \$5.26 was determined based on the average closing price of the Company's common shares for a reasonable period prior to and following the acquisition date of December 2, 2009. The deferred amount payable in cash was discounted to present value using a discounted cash flow model.

The total purchase consideration was allocated to the fair values of the assets acquired and liabilities assumed based on management's best estimates and taking into account all available information at the time of the acquisition. The purchase consideration was allocated to the net assets acquired as follows:

Property and equipment	\$ 16,998
Intangible assets	15,864,341
Accrued liabilities	(26,801)
Deferred revenue	(380,317)
	<u>\$ 15,474,221</u>

ABSOLUTE SOFTWARE CORPORATION

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3. ACQUISITION OF LANREV (Continued)

Details of the acquired intangible assets are as follows:

Acquired software	\$ 15,370,880
Customer relationships	493,461
	<u>\$ 15,864,341</u>

These intangible assets were each determined to have a useful life of 5 years.

The Company's Acquisition Payable is comprised of:

Amount payable in cash	\$ 1,607,501
Amount payable in common shares	1,753,334
	<u>3,360,835</u>
Amount representing interest at 1.4%	16,221
	<u>3,344,614</u>
Less: current portion	(1,666,916)
	<u>\$ 1,677,698</u>

4. ASSET ACQUISITION

On April 7, 2010, the Company acquired the technology assets of the FailSafe® and Phoenix Freeze™ products from Phoenix Technologies Ltd. Under the terms of the asset purchase agreement, the Company paid \$6,894,250 (US\$6,875,000) in cash for the acquired assets.

The aggregate purchase consideration of \$7,223,287 was comprised of the following:

Cash	\$ 6,894,250
Acquisition costs	329,037
	<u>\$ 7,223,287</u>

The total purchase consideration has been allocated to the fair value of the intangible assets acquired, which consist of acquired software, based on management's best estimates and taking into account all available information at the time of the acquisition.

These intangible assets were determined to have a useful life of 3 years.

ABSOLUTE SOFTWARE CORPORATION

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5. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Term deposits	\$ 675,979	\$ 5,367,315
Investment grade securities	6,041,408	129,726
Marketable securities	-	923,169
	<u>\$ 6,717,387</u>	<u>\$ 6,420,210</u>

During 2011, the Company disposed of its marketable securities for total proceeds of \$1,183,631. At the date of disposal, these marketable securities had a cost of \$2,434,037, offset by an unrealized loss of \$1,537,340 (June 30, 2010 - \$1,510,868), for a net amount of \$896,697 (June 30, 2010 - \$923,169).

At June 30, 2011 and 2010, the Company's long-term investments are comprised entirely of investment grade securities.

The Company's gain on investments is comprised of the following:

	<u>2011</u>	<u>2010</u>
Realized gain on marketable securities	\$ 286,934	\$ -
Realized gain on Replacement Notes	-	320,114
Unrealized gain (loss) on marketable securities	565	(221,980)
	<u>\$ 287,499</u>	<u>\$ 98,134</u>

6. DEFERRED CONTRACT COSTS

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Sales commissions	8,093,592	\$ 7,618,590
Other prepaid contract costs	139,056	163,620
	<u>8,232,648</u>	<u>7,782,210</u>
Less: current portion	<u>(4,392,364)</u>	<u>(4,038,159)</u>
	<u>\$ 3,840,284</u>	<u>\$ 3,744,051</u>

ABSOLUTE SOFTWARE CORPORATION
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7. PROPERTY AND EQUIPMENT

	June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 5,309,343	\$ 4,258,302	\$ 1,051,041
Furniture and equipment	1,321,343	1,023,171	298,172
Computer software	1,964,955	1,869,386	95,569
Office equipment	1,655,612	1,137,729	517,883
Trade show equipment	94,566	94,247	319
Leasehold improvements	600,999	449,279	151,720
	\$ 10,946,818	\$ 8,832,114	\$ 2,114,704

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 4,677,327	\$ 3,235,675	\$ 1,441,652
Furniture and equipment	1,318,194	896,910	421,284
Computer software	1,803,621	1,739,553	64,068
Office equipment	1,316,380	731,003	585,377
Trade show equipment	94,566	86,786	7,780
Leasehold improvements	600,999	366,889	234,110
	\$ 9,811,087	\$ 7,056,816	\$ 2,754,271

ABSOLUTE SOFTWARE CORPORATION

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8. INTANGIBLE ASSETS

During 2006, the Company acquired 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 the warrants was calculated using the Black-Scholes option pricing model in the amount of \$638,873, and accordingly, this amount was recorded as an intangible asset (Note 11(g)). In addition, in 2011, the Company acquired certain patents for a total cost of \$162,342.

The Company’s other intangible assets relate to the acquisitions of LANrev (Note 3) and FailSafe® and Phoenix Freeze™ (Note 4).

	June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Acquired software – LANrev	\$ 15,371,104	\$ 5,002,455	\$ 10,368,649
Customer relationships – LANrev	493,238	143,387	349,851
Acquired software – FailSafe and Freeze	7,223,287	3,015,536	4,207,751
Acquired patents	162,342	27,567	134,775
Acquired brand rights – LoJack warrants	638,873	638,873	-
	\$ 23,888,844	\$ 8,827,818	\$ 15,061,026

	June 30, 2010		
	Cost	Accumulated Amortization	Net Book Value
Acquired software – LANrev	\$ 15,370,880	\$ 1,967,728	\$ 13,403,152
Customer relationships – LANrev	493,461	40,992	452,469
Acquired software – FailSafe and Freeze	7,223,287	601,107	6,622,180
Acquired brand rights – LoJack warrants	638,873	638,873	-
	\$ 23,726,501	\$ 3,248,700	\$ 20,477,801

During 2011, the Company recorded amortization of intangible assets of \$5,579,118 (2010 - \$2,737,602).

ABSOLUTE SOFTWARE CORPORATION

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9. ACCRUED WARRANTY AND GUARANTEE

The following table summarizes changes in the accrued warranty for the years ended June 30, 2011 and 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Balance, beginning of year	\$ 9,221,349	\$ 11,252,170
Warranty accrual on new sales contracts	4,003,611	4,038,686
Changes in previous estimates	(2,299,542)	(3,748,796)
Guarantee payments	(2,185,328)	(2,320,711)
Balance, end of year	<u>8,740,090</u>	<u>9,221,349</u>
Less: current portion	(4,457,446)	(4,702,888)
	<u>\$ 4,282,644</u>	<u>\$ 4,518,461</u>

10. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on sales contracts to invoiced Sales Contracts, revenue, and other adjustments:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Balance, beginning of year	\$ 108,458,988	\$ 103,210,166
Sales contracts	79,128,643	69,682,056
Acquired from LANrev (note 3)	-	380,317
Revenue recognized	(72,198,733)	(64,075,789)
Other adjustments	(324,598)	(737,762)
Balance, end of year	<u>\$ 115,064,300</u>	<u>\$ 108,458,988</u>

The following table provides a breakdown of the net deferred revenue balances at June 30, 2011 and 2010:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Deferred revenue	\$ 115,064,300	\$ 108,458,988
Deferred warranty costs	(5,713,930)	(5,700,405)
	<u>109,350,370</u>	<u>102,758,583</u>
Less: current portion	(55,355,122)	(52,411,595)
	<u>\$ 53,995,248</u>	<u>\$ 50,346,988</u>

ABSOLUTE SOFTWARE CORPORATION

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11. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value

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

(b) Issued and outstanding

During the year ended June 30, 2011, the Company issued 296,775 common shares on exercise of employee stock options for total proceeds of \$464,470. An amount of \$251,419 related to the original fair value of the options was transferred from contributed surplus to common shares upon exercise.

During the year ended June 30, 2011, the Company issued 184,987 common shares pursuant to its employee share purchase plan for total proceeds of \$619,934.

During the year ended June 30, 2011, the Company issued 166,667 common shares pursuant to its acquisition of LANrev (Note 3). The fair value of these common shares, measured at the date of the acquisition, was \$876,667.

During the year ended June 30, 2010, the Company issued 741,552 common shares on exercise of employee stock options for total proceeds of \$1,399,160. An amount of \$259,911 related to the original fair value of the options was transferred from contributed surplus to common shares upon exercise.

During the year ended June 30, 2010, the Company issued 231,188 common shares pursuant to its employee share purchase plan for total proceeds of \$786,895.

During the year ended June 30, 2010, the Company issued 400,000 common shares upon exercise of share purchase warrants for total proceeds of \$400,000. An amount of \$255,550 related to the original fair value of the warrants was transferred from contributed surplus to common shares upon exercise.

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

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11. SHARE CAPITAL (Continued)

Under the Bids, the Company repurchased 3,797,020 common shares for a total cost of \$14,191,302 (2010 – 238,000 common shares for a cost of \$1,009,227). On repurchase of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in accumulated deficit, amounting in 2011 to \$12,335,480 (2010 - \$807,141).

(c) Stock Option Plan

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

In 2001, the Company's Board of Directors adopted the Option Plan (as amended in 2007 and 2009), which provided for a maximum of 12% of the number of common shares outstanding to be allocated to Option Plan participants. On this basis, at June 30, 2011, the maximum number of common shares available under the Option Plan was 5,241,660 (2010 - 5,619,490), of which 515,709 remained available for grant thereunder.

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

The following table summarizes activity under the Option Plan for the years ended June 30, 2011 and 2010:

	2011		2010	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, beginning of year	4,707,925	\$ 4.87	4,127,127	\$ 4.57
Granted	1,249,300	3.85	1,910,950	4.70
Exercised	(296,775)	1.56	(741,552)	1.89
Forfeited	(563,088)	5.25	(524,350)	5.57
Expired	(371,411)	7.54	(64,250)	9.36
Outstanding, end of year	4,725,951	\$ 4.55	4,707,925	\$ 4.87

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11. SHARE CAPITAL (Continued)

The following table summarizes information about stock options issued and exercisable at June 30, 2011:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$1.13 - \$2.28	167,500	0.5	1.45	167,500	1.45
\$2.95 - \$4.28	2,694,375	3.0	3.87	785,749	3.89
\$4.48 - \$6.31	1,551,950	3.2	4.69	396,486	4.70
\$8.01 - \$13.42	312,126	1.4	11.46	244,248	11.28
	4,725,951	2.9	\$ 4.55	1,593,383	\$ 4.97

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the year ended June 30, 2011 was \$1,961,655 (2010 - \$3,604,859). The weighted average grant date fair value of options granted during the year ended June 30, 2011 was \$1.57 (2010 - \$1.89).

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

	2011	2010
Risk-free interest rate	1.2%	0.5%
Dividend yield	0%	0%
Expected life (in years)	3.0	3.0
Volatility	60%	60%

ABSOLUTE SOFTWARE CORPORATION

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11. SHARE CAPITAL (Continued)

(d) Non-standard Options

On December 15, 2010, the Company's shareholders ratified the grant of an additional 500,000 stock options (the "Non-standard Options") outside of the Option Plan, pursuant to the employment agreements of the selling shareholders of LANrev (note 3). The Non-standard Options were granted effective December 2, 2009, the date of the acquisition, with an exercise price of \$5.15, and vest in equal instalments over a three year period beginning on that date. Each tranche expires two years after each vesting date.

The total fair value of the Non-standard Options was \$1,033,067, with a weighted average grant date fair value of \$2.07. This fair value was measured at the date the employment agreements were entered into, as the terms and conditions of the grants were known at that time. The estimated fair value of the Non-standard Options was estimated by using the Black-Scholes option pricing model assuming no dividend yield, an expected life of three years, volatility of 60%, and a risk-free interest rate of 0.5%. At June 30, 2011, 166,667 Non-standard Options had vested and remained outstanding.

(e) Employee Share Purchase Plan

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

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the year ended June 30, 2011, 184,987 common shares (2010 – 231,188 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$3.38 (2010 - \$3.43) per share.

At June 30, 2011, 1,099,834 common shares remained available for grant under the Purchase Plan.

ABSOLUTE SOFTWARE CORPORATION

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11. SHARE CAPITAL (Continued)

(f) Stock-based compensation

The Company's stock-based compensation for the years ended June 30, 2011 and 2010 was comprised as follows:

	<u>2011</u>	<u>2010</u>
Stock option plan	\$ 2,129,111	\$ 1,960,901
Non-standard Options	545,230	-
Employee share purchase plan	109,558	125,076
	<u>\$ 2,783,899</u>	<u>\$ 2,085,977</u>

The following table summarizes the allocation of stock-based compensation for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Cost of revenue	\$ 308,197	\$ 325,906
Sales and marketing	1,256,046	923,580
Research and development	886,047	564,260
General and Administration	333,609	272,232
	<u>\$ 2,783,899</u>	<u>\$ 2,085,977</u>

(g) Warrants

During 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 was exercisable for one common share at an exercise price of \$1.00 per share. The warrants vested 20% annually on June 30 of each year from 2006 to 2010. All unexercised warrants expired the earlier of 2 years after the vesting date, June 30, 2011 or on termination of the agreement.

During 2010, the remaining 400,000 warrants were exercised.

The grant date fair value of the warrants was recorded as an intangible asset (Note 8).

ABSOLUTE SOFTWARE CORPORATION

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11. SHARE CAPITAL (Continued)

(h) *Potentially dilutive securities*

For the year ended June 30, 2011, 178,980 share purchase options (2010 - 1,181,275 share purchase options) were excluded from diluted loss per share as their effect would have been anti-dilutive.

12. INCOME TAXES

Income tax expense (recovery) for the years ended June 30, 2011 and 2010 differ from that calculated by applying statutory rates for the following reasons:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Income (loss) before income taxes	\$ 338,561	\$ (5,384,979)
Combined Federal and Provincial income tax rate	<u>27.50%</u>	<u>29.25%</u>
Tax expense (recovery) at statutory rate	93,104	(1,575,106)
Permanent differences	(10,139)	398,682
Foreign losses tax effected at higher rates	(660,886)	(731,138)
Impact on future income tax assets of changes in foreign exchange rates	1,691,140	1,777,255
Changes in statutory tax rates	66,681	546,954
Benefit of previously unrecognized future income tax assets and change in valuation allowance	653,984	865,626
Changes in prior year estimates	<u>(347,884)</u>	<u>1,486,629</u>
Total income tax expense	<u>\$ 1,486,000</u>	<u>\$ 2,768,902</u>
Comprised of:		
Current income tax expense	\$ 1,633,000	\$ 1,255,000
Future income tax (recovery) expense	<u>(147,000)</u>	<u>1,513,902</u>
	<u>\$ 1,486,000</u>	<u>\$ 2,768,902</u>

For the year ended June 30, 2011, the Company recorded a net current income tax payable of \$nil (2010 - \$nil), comprised of a provision for income tax expense of \$1.6 million (2010 - \$1.3 million) offset by a \$1.6 million recovery (2010 - \$1.3 million) for Canadian Investment Tax Credits ("ITCs"). The ITCs were credited against operating expenses, as the credit is generated by certain eligible scientific research and development expenditures ("SRED").

In addition, the Company recorded an additional \$1.6 million reduction in current taxes payable and recovery of ITCs related to historical SRED claims upon their assessment by CRA during the year.

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12. INCOME TAXES (Continued)

The tax effect of the significant temporary differences and loss carryforwards that comprise future income tax assets and liabilities at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Future income tax assets (liabilities):		
Property and equipment	\$ 283,596	\$ 658,271
Intangible assets	(883,079)	(1,382,449)
Deferred revenue	16,936,839	18,313,467
Accrued warranty	756,540	963,330
Operating loss carryforwards	5,048,209	2,514,350
Other	(262,429)	12,349
	<u>21,879,676</u>	<u>21,079,318</u>
Valuation allowance	(1,518,984)	(865,626)
	<u>20,360,692</u>	<u>20,213,692</u>
Less: current portion	(9,973,479)	(9,904,709)
	<u>\$ 10,387,213</u>	<u>\$ 10,308,983</u>

The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carryforward periods. Management considers the scheduled reversal of future tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carryforward period. The Company has estimated operating tax loss carryforwards of \$18,091,175, of which \$4,627,323 expire in 2030 with the balance carrying forward indefinitely.

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.

ABSOLUTE SOFTWARE CORPORATION

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13. CAPITAL RISK MANAGEMENT

The Company's objectives in managing capital are to ensure sufficient liquidity to pursue its strategy of organic growth and strategic acquisitions in order to provide returns to its shareholders, and have not changed since 2010. The Company's capital structure consists of cash and cash equivalents, short-term investments and investments, and shareholders' deficiency, which is comprised of issued capital, contributed surplus, and deficit. 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 share repurchases.

14. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Cash	\$ 28,575,992	\$ 10,667,886
Cash equivalents	229,221	17,410,965
	<u>\$ 28,805,213</u>	<u>\$ 28,078,851</u>

Other cash flow information

	<u>2011</u>	<u>2010</u>
Cash paid for income taxes	\$ -	\$ 237,367
Cash paid for interest	-	-

Non-cash investing and financing activities

Accrued purchases of property and equipment	\$ 18,165	\$ 71,231
Common shares issued for Acquisition Payable (Note 3)	867,667	-
Accrued purchase price payable (Note 3)	-	5,185,822

ABSOLUTE SOFTWARE CORPORATION

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15. 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 investments.

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company maintains 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. 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 Company's operating loss increases in periods 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 working capital balances 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 decrease of \$310,000 in operating income and a \$15,000 decrease in net loss. For a 1% weakening of the U.S. dollar against the Canadian dollar, there would be an equal and opposite impact on operating income and net loss.

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15. 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 carrying out credit investigations for new customers and partners, and 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. At June 30, 2011, 20% of the Company's accounts receivable balance is over 90 days past due (2010 – 18%). Accounts receivable are net of allowance for doubtful accounts of \$1.4 million (June 30, 2010 - \$1.9 million). As at June 30, 2011, 29% and 18% (June 30, 2010 - 20% and 27%) of the receivable balances are owing from two OEM partners.

The Company manages credit risk related to cash, cash equivalents, and investments by maintaining bank and investment accounts with high credit quality financial institutions, including Schedule 1 banks.

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15. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(e) Fair Values of Financial Instruments

The carrying value of cash and cash equivalents, short term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to the immediate or short-term nature of these instruments. The carrying value of investments is higher than their fair value as the investments generally bear interest at rates higher than market. The carrying value of acquisition payable approximates its fair value as the cash portion of the liability is discounted to present value at an interest rate that approximates market. The carrying value of accrued warranty 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, a Level 1 valuation methodology (Note 5).

16. SEGMENTED INFORMATION

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

	<u>2011</u>	<u>2010</u>
Revenue		
United States	\$ 65,587,965	\$ 59,386,340
Canada and rest of world	<u>6,610,768</u>	<u>4,689,449</u>
	<u>\$ 72,198,733</u>	<u>\$ 64,075,789</u>
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Long-lived assets		
Canada	\$ 16,420,942	\$ 22,459,028
United States and rest of world	<u>754,788</u>	<u>773,044</u>
	<u>\$ 17,175,730</u>	<u>\$ 23,232,072</u>

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Notes to the Consolidated Financial Statements

Years ended June 30, 2011 and 2010

(Expressed in Canadian dollars)

17. COMMITMENTS

The Company's minimum payments required under operating leases for premises, equipment and business service agreements, and a branding agreement (note 8) are as follows as at June 30, 2011:

2012	\$ 1,783,773
2013	1,969,359
2014	1,761,837
2015	906,486
2016 and thereafter	186,267
	<u>\$ 6,607,722</u>

18. CONTINGENCIES

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

Absolute Software Corporation and Absolute Software, Inc. v. Stealth Signal, Inc., and Computer Security Products, Inc. in the United States District Court for the Southern District of Texas, Case No. H-05-1416. On July 21, 2010 the claim of patent infringement made against Stealth Signal, Inc. by the Company was dismissed and the counterclaim against the Company for patent infringement was also dismissed. Subsequently, both parties filed notices to appeal the dismissal of their respective claim and counterclaim. Both parties filed with the United States Court of Appeals for the Federal Circuit, briefs supporting their respective claims. On July 5, 2011, the Court of Appeals for the Federal Circuit conducted an oral hearing, addressing the parties' respective positions. The Company is awaiting a decision from the Court of Appeals for the Federal Circuit.

In order to establish and defend its proprietary rights and patent portfolio, the Company is also the initiating party in two other patent-related matters. The Company's management believes it 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.

In addition, due to the nature of the Company's business and products, the Company is involved in other legal matters which arise from time to time in the ordinary course of the Company's business. The Company believes that any such claims currently existing are without merit and intends to vigorously defend any such assertions. At this time, there are no legal matters of this type which are believed to be material to the Company's results of operations, liquidity, or financial condition.

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19. SUBSEQUENT EVENTS

Subsequent to June 30, 2011, through August 18, 2011, the Company has repurchased an additional 436,700 common shares under its Normal Course Issuer Bid for a total cost of \$1,726,290.

On July 18, 2011, 93,502 common shares were issued pursuant to the Purchase Plan.