

Interim Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three and nine months ended March 31, 2011 and 2010

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION

Consolidated Balance Sheets

(Expressed in Canadian dollars) (Unaudited)

	Notes	March 31, 2011	June 30, 2010
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 28,512,072	\$ 28,078,851
Short-term investments	(Note 2)	810,261	6,420,210
Accounts receivable, net of allowance for doubtful accounts of \$1,884,000 (2010 - \$1,935,000)		12,528,642	13,888,239
Prepaid expenses and other		1,487,978	1,149,428
Current portion of deferred contract costs		4,215,494	4,038,159
Current portion of future income tax assets	(Note 5)	10,861,679	9,904,709
		58,416,126	63,479,596
INVESTMENTS	(Note 2)	23,990,760	23,527,677
DEFERRED CONTRACT COSTS		3,613,300	3,744,051
PROPERTY AND EQUIPMENT		2,484,557	2,754,271
FUTURE INCOME TAX ASSETS	(Note 5)	11,305,013	10,308,983
INTANGIBLE ASSETS		16,455,603	20,477,801
		\$ 116,265,359	\$ 124,292,379
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 9,481,157	\$ 8,183,219
Income tax payable	(Note 5)	504,000	1,575,000
Current portion of acquisition payable		1,668,407	1,728,607
Current portion of accrued warranty		4,063,620	4,702,888
Current portion of deferred revenue, net	(Note 3)	55,276,776	52,411,595
		70,993,960	68,601,309
ACQUISITION PAYABLE		1,679,024	3,457,214
ACCRUED WARRANTY		4,480,733	4,518,461
DEFERRED REVENUE, NET	(Note 3)	51,136,434	50,346,988
		128,290,151	126,923,972
CONTINGENCIES	(Note 8)		
SHAREHOLDERS' DEFICIENCY			
Share Capital	(Note 4(b))	44,207,137	44,888,407
Contributed Surplus		30,491,960	28,393,491
Deficit		(86,723,889)	(75,913,491)
		(12,024,792)	(2,631,593)
		\$ 116,265,359	\$ 124,292,379

See accompanying notes to the Interim Consolidated Financial Statements.

Approved on behalf of the Board:

(signed) "John Livingston"
John Livingston, Director

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

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Operations and Comprehensive Income (Loss)

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2011	2010	2011	2010
REVENUE		\$ 18,014,234	\$ 16,591,201	\$ 53,246,806	\$ 47,475,908
COST OF REVENUE		4,911,539	2,947,133	14,470,317	9,314,375
GROSS MARGIN		13,102,695	13,644,068	38,776,489	38,161,533
OPERATING EXPENSES					
Sales and marketing		8,169,429	8,005,609	25,558,106	25,327,575
Research and development		2,911,342	2,675,563	8,913,603	7,521,818
General and administration		1,987,367	2,235,811	5,876,631	6,098,036
Investment tax credits		(1,975,000)	(250,000)	(2,781,000)	(750,000)
Stock-based compensation	(Note 4(f))	530,710	494,747	2,255,210	1,663,425
		11,623,848	13,161,730	39,822,550	39,860,854
OPERATING INCOME (LOSS)		1,478,847	482,338	(1,046,061)	(1,699,321)
OTHER EXPENSE					
Interest income, net		157,572	172,087	500,232	524,947
Foreign exchange loss		(730,402)	(484,407)	(1,655,837)	(2,370,864)
(Loss) gain on investments		-	(11,935)	287,499	(159,263)
		(572,830)	(324,255)	(868,106)	(2,005,180)
NET INCOME (LOSS) BEFORE INCOME TAXES	(Note 5)	906,017	158,083	(1,914,167)	(3,704,501)
INCOME TAX RECOVERY (EXPENSE)		240,000	(190,000)	243,000	(640,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)		\$ 1,146,017	\$ (31,917)	\$ (1,671,167)	\$ (4,344,501)
BASIC AND DILUTED INCOME (LOSS) PER SHARE	(Note 4(g))	\$ 0.03	\$ (0.00)	\$ (0.04)	\$ (0.09)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 4(g))	44,561,824	46,467,203	45,471,099	46,203,446

See accompanying notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in Canadian dollars) (Unaudited)

	Share Capital				Total
	Number of Common shares	Amount	Contributed Surplus	Deficit	
BALANCE, JUNE 30, 2009	45,694,350	\$ 41,988,977	\$ 26,822,975	\$ (66,952,469)	\$ 1,859,483
Shares issued on options exercised	741,552	1,659,071	(259,911)	-	1,399,160
Shares issued under Employee Share Purchase Plan	231,188	786,895	-	-	786,895
Shares repurchased and cancelled under 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	178,330	446,190	(156,741)	-	289,449
Shares issued under Employee Share Purchase Plan	184,457	619,934	-	-	619,934
Shares issued for acquisition payable	166,666	876,667	-	-	876,667
Shares repurchased and cancelled under Normal Course Issuer Bid	(3,122,420)	(2,624,061)	-	(9,139,231)	(11,763,292)
Stock-based compensation expense	-	-	2,255,210	-	2,255,210
Net loss	-	-	-	(1,671,167)	(1,671,167)
BALANCE, MARCH 31, 2011	44,236,123	\$ 44,207,137	\$ 30,491,960	\$ (86,723,889)	\$ (12,024,792)

See accompanying Notes to the Interim Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION
Consolidated Statements of Cash Flows
Three and nine months ended March 31, 2011 and 2010
(Expressed in Canadian dollars) (Unaudited)

	Notes	Three months ended March 31,		Nine months ended March 31,	
		2011	2010	2011	2010
OPERATING ACTIVITIES					
Net income (loss)		\$ 1,146,017	\$ (31,917)	\$ (1,671,167)	\$ (4,344,501)
Items not involving cash					
Amortization of property and equipment		432,155	355,465	1,224,742	992,630
Amortization of intangible assets		1,404,577	892,823	4,184,541	1,243,670
Stock-based compensation	(Note 4(f))	530,710	494,747	2,255,210	1,663,425
Future income taxes	(Note 5)	(900,000)	(40,000)	(1,953,000)	(2,060,000)
Loss (gain) on investments	(Note 2)	-	11,935	(287,499)	159,263
Unrealized foreign exchange		(72,533)	-	(126,938)	-
Non-cash interest expense		5,637	-	37,549	-
Change in non-cash working capital					
Accounts receivable		1,530,461	720,926	2,164,186	5,218,980
Prepaid expenses and other		(308,380)	163,803	(338,550)	(271,165)
Deferred contract costs		264,214	6,496	(46,584)	(228,918)
Accounts payable and accrued liabilities		925,038	418,091	1,735,773	468,235
Income tax payable	(Note 5)	(1,315,000)	(20,000)	(1,071,000)	1,950,000
Accrued warranty		(375,332)	(1,534,029)	(676,996)	(1,032,866)
Deferred revenue		(541,140)	(846,636)	3,654,629	3,369,839
CASH FROM OPERATING ACTIVITIES		2,726,424	591,704	9,084,896	7,128,592
INVESTING ACTIVITIES					
Purchase of property and equipment		(441,759)	(353,239)	(955,033)	(1,104,956)
Purchase of intangible assets		-	-	(162,342)	-
Acquisition payable		-	(30,000)	(872,333)	(10,284,256)
Proceeds from sales and maturities of short-term investments		60,000	-	6,428,986	7,311,464
Purchase of short-term investments		(54,022)	(84,207)	(531,538)	(7,504,905)
Purchase of investments		(155,180)	(54,854)	(463,083)	(20,316,406)
CASH (USED IN) FROM INVESTING ACTIVITIES		(590,961)	(522,300)	3,444,657	(31,899,059)
FINANCING ACTIVITIES					
Repurchase of common shares for cancellation	(Note 4(b))	(2,137,498)	-	(11,798,834)	(101,250)
Issuance of common shares	(Note 4(b))	347,213	660,482	909,383	2,058,105
CASH (USED IN) FROM FINANCING ACTIVITIES		(1,790,285)	660,482	(10,889,451)	1,956,855
FOREIGN EXCHANGE EFFECT ON CASH		(499,977)	(350,661)	(1,206,881)	(958,882)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(154,799)	379,225	433,221	(23,772,494)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		28,666,871	31,926,285	28,078,851	56,078,004
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 28,512,072	\$ 32,305,510	\$ 28,512,072	\$ 32,305,510

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 6)

See accompanying notes to the Interim Consolidated Financial Statements

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Basis of presentation*

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

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

(b) *Adoption of Future Accounting Standards*

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

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES (continued):

selling price method; and (5) require expanded qualitative and quantitative disclosures regarding significant judgments made in applying this guidance.

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

(c) Comparative financial information

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

	<u>Three months ended March 31, 2010</u>	<u>Nine months ended March 31, 2010</u>
Cost of revenue		
As originally reported	\$ 3,523,676	\$ 11,080,155
As recast	\$ 2,947,133	\$ 9,314,375
Research and development		
As originally reported	\$ 2,099,202	\$ 5,756,038
As recast	\$ 2,675,563	\$ 7,521,818

In addition, the Company has reclassified an immaterial error in its consolidated statements of cash flows for the three and nine months ended March 31, 2011 and 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". As a result of this reclassification, there was no impact on previously reported net change in cash and cash equivalents, net loss, net loss per common share or financial position for any of the periods presented. This reclassification had the following impact:

	<u>Three months ended March 31, 2010</u>	<u>Nine months ended March 31, 2010</u>
Cash from operating activities		
As originally reported	\$ 241,043	\$ 6,169,710
As recast	\$ 591,704	\$ 7,128,592

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

2. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>March 31, 2011</u>	<u>June 30, 2010</u>
Term deposits	\$ 676,452	\$ 5,367,315
Investment grade securities	133,809	129,726
Marketable securities	-	923,169
	<u>\$ 810,261</u>	<u>\$ 6,420,210</u>

In the three and nine months ended March 31, 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). Accordingly, the Company recorded a net gain on sale of \$286,934 in the statement of operations.

At June 30, 2010 and March 31, 2011, the Company's long-term investments are comprised entirely of investment grade securities.

3. DEFERRED REVENUE

The following table provides a reconciliation of deferred revenue balances on sales contracts to invoiced sales contracts, revenue, and other adjustments for the three and nine months ended March 31, 2011 and 2010:

	<u>Three months ended</u>		<u>Nine months ended</u>	
	<u>March 31,</u>		<u>March 31,</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Balance, beginning of period	\$ 112,739,524	\$ 107,567,502	\$ 108,458,988	\$ 103,210,166
Sales contracts	17,239,839	15,039,976	57,057,239	50,341,020
Acquired from LANrev	-	-	-	380,317
Revenue recognized	(18,014,234)	(16,591,201)	(53,246,806)	(47,475,908)
Other adjustments	(4,982)	(136,541)	(309,274)	(575,859)
Balance, end of period	<u>\$ 111,960,147</u>	<u>\$ 105,879,736</u>	<u>\$ 111,960,147</u>	<u>\$ 105,879,736</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

3. DEFERRED REVENUE (continued):

The following table provides a breakdown of the net deferred revenue balances at March 31, 2011 and June 30, 2010:

	<u>March 31, 2011</u>	<u>June 30, 2010</u>
Deferred revenue	\$ 111,960,147	\$ 108,458,988
Deferred warranty costs	<u>(5,546,937)</u>	<u>(5,700,405)</u>
	106,413,210	102,758,583
Less: current portion	<u>(55,276,776)</u>	<u>(52,411,595)</u>
	<u>\$ 51,136,434</u>	<u>\$ 50,346,988</u>

4. SHARE CAPITAL

(a) Authorized

100,000,000 common shares, no par value

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

(b) Issued and outstanding

During the three and nine months ended March 31, 2011, the Company issued 35,500 and 178,330 common shares, respectively, on exercise of employee stock options for total proceeds of \$63,324 and \$289,449. An amount of \$32,359 and \$156,745, respectively, was transferred from contributed surplus to common shares upon exercise, related to the original fair value of the options.

During the three and nine months ended March 31, 2011, the Company issued 90,123 and 184,457 common shares pursuant to its employee share purchase plan for total proceeds of \$283,887 and \$619,934.

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

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

Under the Bids, in the three and nine months ended March 31, 2011, the Company repurchased 572,470 and 3,122,420 common shares, respectively, for a total cost of \$2,101,945 and \$11,763,292. On repurchase of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in accumulated deficit, amounting to \$1,643,261 and \$9,139,231 in the three and nine months ended March 31, 2011.

(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 March 31, 2011, the maximum number of common shares available under the Option Plan was 5,308,335 (June 30, 2010 - 5,619,490), of which 339,746 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 nine months ended March 31, 2011 and 2010:

	<u>2011</u>		<u>2010</u>	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding, June 30	4,707,925	\$ 4.87	4,127,127	\$ 4.57
Granted	1,060,800	3.85	370,700	5.67
Exercised	(177,800)	1.59	(546,227)	1.96
Forfeited	(311,075)	5.28	(210,725)	6.67
Expired	(311,261)	7.13	(15,750)	7.74
Outstanding, March 31	4,968,589	\$ 4.60	3,725,125	\$ 4.93

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

The following table summarizes information about stock options issued and exercisable at March 31, 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
\$0.74 - \$1.15	141,500	0.3	\$ 1.03	141,500	\$ 1.03
\$1.38 - \$1.95	110,000	0.8	1.56	110,000	1.56
\$2.28 - \$3.40	186,750	2.1	2.96	111,250	2.89
\$3.53 - \$4.28	2,462,700	3.2	3.92	732,612	3.98
\$4.48 - \$6.31	1,670,450	3.5	4.72	87,299	5.61
\$8.01 - \$13.42	397,189	1.5	11.24	270,122	11.10
	4,968,589	3.0	\$ 4.60	1,452,783	\$ 4.85

Fair values – Option Plan

The total fair value of options granted under the Option Plan in the three and nine months ended March 31, 2011 was \$1,236,147 and \$1,663,745 (2010 - \$239,074 and \$843,251). The weighted average grant date fair value of options granted during the three and nine months ended March 31, 2011 was \$1.54 and \$1.57, respectively (2010 - \$2.48 and \$2.27).

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

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Risk-free interest rate	1.3%	0.5%	1.2%	0.5%
Dividend yield	0%	0%	0%	0%
Expected life (in years)	3.0	3.0	3.0	3.0
Volatility	60%	60%	60%	60%

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Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

(d) *Non-standard Options*

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

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

(e) *Employee Share Purchase Plan*

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

The Purchase Plan allows employees to purchase up to 2,000,000 common shares from treasury at a 15% discount from the market price. Each employee may allocate a maximum of \$10,500 per year to the purchase of common shares through two six month offering periods per year. During the three and nine months ended March 31, 2011, 90,123 and 184,457 common shares, respectively (2010 – 83,339 and 231,098 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$3.15 and \$3.36, respectively (2010 - \$4.46 and \$3.43) per share.

At March 31, 2011, 1,099,834 common shares remained available for grant under the Purchase Plan.

Under the Purchase Plan, the stock-based compensation charge is determined by the difference between the share purchase price and market price at the start of each purchase period.

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Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

4. SHARE CAPITAL (continued)

(f) Stock-based compensation

The Company's stock-based compensation for the three and nine months ended March 31, 2011 and 2010 was comprised as follows:

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Stock option plan	\$ 419,651	\$ 462,020	\$ 1,721,149	\$ 1,565,244
Non-standard Options	86,089	-	459,141	-
Employee share purchase plan	24,970	32,727	74,920	98,181
	\$ 530,710	\$ 494,747	\$ 2,255,210	\$ 1,663,425

The following table summarizes the allocation of stock-based compensation for the three and nine months ended March 31, 2011 and 2010:

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Cost of revenue	\$ 54,705	\$ 77,312	\$ 252,404	\$ 271,885
Sales and marketing	249,459	215,445	984,192	728,372
Research and development	153,068	135,862	735,379	444,845
General and Administration	73,478	66,128	253,235	218,323
	\$ 530,710	\$ 494,747	\$ 2,225,210	\$ 1,663,425

(g) Diluted number of shares outstanding and potentially dilutive securities

For the three months ended March 31, 2011, the diluted weighted average number of common shares outstanding was 44,768,010. For all other periods presented, the basic and diluted weighted average number of common shares outstanding was the same.

For the nine months ended March 31, 2011, 252,627 share purchase options (three and nine months ended March 31, 2010 – 1,501,181 and 1,344,287) were excluded from diluted loss per share as their effect would have been anti-dilutive.

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Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

5. INCOME TAXES

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

For the three and nine months ended March 31, 2011, the Company recorded a current tax expense of \$660,000 and \$1,710,000 (2010 – \$230,000 and \$2,700,000), and a future income tax recovery of \$900,000 and \$1,953,000 (2010 – \$40,000 and \$2,060,000), based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2011. In addition, the Company recorded a reduction in its estimated current income taxes payable and operating expenses of \$1,575,000 as a result of the resolution of previously claimed SRED amounts from prior tax years. As of March 31, 2011, the Company had total net future tax assets of \$22.2 million (June 30, 2010 - \$20.2 million), primarily related to deferred revenue balances, and current income taxes payable of \$0.5 million (June 30, 2010 - \$1.6 million).

The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during the loss carry-forward periods. Management considers the scheduled reversal of future tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry-forward period.

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

6. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>March 31, 2011</u>	<u>June 30, 2010</u>
Cash	\$ 26,714,541	\$ 10,667,886
Cash equivalents	1,797,531	17,410,965
	<u>\$ 28,512,072</u>	<u>\$ 28,078,851</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

6. SUPPLEMENTAL CASH FLOW INFORMATION (continued):

Other cash flow information

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Cash paid for income taxes	\$ -	\$ -	\$ 25,005	\$ 237,367
Cash paid for interest	-	-	-	-
<i>Non-cash investing and financing activities</i>				
Shares issued for acquisition payable	\$ -	-	\$ 876,667	-
Accrued purchase price payable	-	-	-	\$ 5,124,340

7. SEGMENTED INFORMATION

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

	Three months ended March 31,		Nine months ended March 31,	
	2011	2010	2011	2010
Revenue				
United States	\$ 16,443,229	\$ 15,275,115	\$ 48,591,640	\$ 44,080,685
Canada and rest of world	1,571,005	1,316,086	4,655,166	3,395,223
	\$ 18,014,234	\$ 16,591,201	\$ 53,246,806	\$ 47,475,908

	March 31, 2011	June 30, 2010
Long-lived assets		
Canada	\$ 18,115,646	\$ 22,459,028
United States and rest of world	824,514	773,044
	\$ 18,940,160	\$ 23,232,072

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Notes to the Interim Consolidated Financial Statements

Three and nine months ended March 31, 2011 and 2010

(Expressed in Canadian dollars) (Unaudited)

8. CONTINGENCIES

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

Absolute Software Corporation and Absolute Software, Inc. v. Stealth Signal, Inc., and Computer Security Products, Inc. in the United States District Court for the Southern District of Texas, Case No. H-05-1416. On July 21, 2010 the claim of patent infringement made against Stealth Signal, Inc. by the Company was dismissed and the counterclaim against the Company for patent infringement was also dismissed. Subsequently, both parties filed notices to appeal the dismissal of their respective claim and counterclaim. A mediation hearing set for November 17, 2010 was declined by both parties due to costs and the distance between the parties' respective positions. Both parties continue to file briefs supporting their claims, and there are currently no hearings scheduled.

9. SUBSEQUENT EVENTS

Subsequent to March 31, 2011, through May 9, 2011, the Company has repurchased an additional 258,300 common shares under its Normal Course Issuer Bid for a total cost of \$853,757.