

Interim Condensed Consolidated Financial Statements of

ABSOLUTE SOFTWARE CORPORATION

Three months ended September 30, 2011 and 2010

(Unaudited)

ABSOLUTE SOFTWARE CORPORATION
Condensed Consolidated Statements of Financial Position
(Expressed in United States dollars) (Unaudited)

	Notes	September 30, 2011	June 30, 2011	July 1, 2010
ASSETS				
CURRENT				
Cash and cash equivalents		\$ 32,641,565	\$ 29,866,741	\$ 26,375,048
Short-term investments	(Note 3)	18,087,721	6,964,589	6,030,609
Trade and other receivables	(Note 4)	18,751,026	16,174,126	13,051,372
Prepaid expenses and other		1,710,236	1,598,015	1,079,872
		71,190,548	54,603,471	46,536,901
INVESTMENTS	(Note 3)	5,603,151	18,905,433	22,099,547
PROPERTY AND EQUIPMENT		1,647,848	1,840,824	2,417,005
DEFERRED INCOME TAX ASSETS	(Note 10)	20,588,806	20,845,469	18,240,815
INTANGIBLE ASSETS	(Note 5)	21,178,369	22,323,743	26,750,552
		\$ 120,208,722	\$ 118,518,940	\$ 116,044,820
LIABILITIES				
CURRENT				
Trade and other payables	(Note 6)	\$ 7,260,884	\$ 8,768,886	\$ 7,688,207
Income tax payable		-	-	1,479,398
Acquisition payable – current		1,593,018	1,762,611	1,623,681
Accrued warranty	(Note 7)	850,000	880,000	1,020,000
Deferred revenue – current	(Note 8)	58,811,304	55,923,312	51,507,198
		68,515,206	67,334,809	63,318,484
ACQUISITION PAYABLE		1,593,689	1,623,041	3,278,822
DEFERRED REVENUE	(Note 8)	59,339,740	55,255,525	48,680,689
		129,448,635	124,213,375	115,277,995
CONTINGENCIES	(Note 14)			
SHAREHOLDERS' (DEFICIENCY) EQUITY				
Share Capital	(Note 9(b))	34,377,719	34,640,517	34,306,576
Equity reserve		35,075,350	34,431,802	31,113,973
Deficit		(78,692,982)	(74,766,754)	(64,653,724)
		(9,239,913)	(5,694,435)	766,825
		\$ 120,208,722	\$ 118,518,940	\$ 116,044,820

See accompanying notes to the Condensed Consolidated Financial Statements.

Approved on behalf of the Board on November 17, 2011:

(signed) "John Livingston"
John Livingston, Director

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

ABSOLUTE SOFTWARE CORPORATION
Condensed Consolidated Statements of Operations and
Comprehensive (Loss) Income

Three months ended September 30, 2011 and 2010
(Expressed in United States dollars) (Unaudited)

	Notes	2011	2010
REVENUE		\$ 18,246,507	\$ 16,326,555
COST OF REVENUE		5,056,325	4,988,017
GROSS MARGIN		13,190,182	11,338,538
OPERATING EXPENSES			
Sales and marketing		7,783,810	8,884,189
Research and development		2,797,415	2,920,694
General and administration		1,814,828	1,564,768
Investment tax credits		(575,000)	(383,368)
Share-based compensation	(Note 9(f))	696,813	761,927
		12,517,866	13,748,210
OPERATING INCOME (LOSS)		672,316	(2,409,672)
OTHER (EXPENSE) INCOME			
Interest income, net		146,484	181,753
Foreign exchange (loss) gain		(1,862,747)	1,627,106
Gain on investments	(Note 3)	-	1,316
		(1,716,263)	1,810,175
NET LOSS BEFORE INCOME TAXES		(1,043,947)	(599,497)
INCOME TAX (EXPENSE) RECOVERY	(Note 10)	(840,000)	664,830
NET (LOSS) INCOME AND TOTAL COMPREHENSIVE (LOSS) INCOME		\$ (1,883,947)	\$ 65,333
BASIC AND DILUTED (LOSS) INCOME PER SHARE		\$ (0.04)	\$ 0.00
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC	(Note 9(g))	43,406,230	46,695,030

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Changes in Shareholders' Deficiency

(Expressed in United States dollars) (Unaudited)

	Share Capital				
	Number of Common shares	Amount	Equity reserve	Deficit	Total
BALANCE, JUNE 30, 2010	46,829,090	\$ 34,306,576	\$ 31,113,973	\$ (64,653,724)	\$ 766,825
Shares issued on options exercised	100,750	228,112	(78,017)	-	150,095
Shares issued under Employee Share Purchase Plan	94,864	323,917	-	-	323,917
Shares repurchased and cancelled under the Normal Course Issuer Bid	(830,100)	(489,303)	-	(2,786,894)	(3,276,197)
Share-based compensation expense	-	-	761,927	-	761,927
Net income and total comprehensive income	-	-	-	65,333	65,333
BALANCE, SEPTEMBER 30, 2010	46,194,604	\$ 34,369,302	\$ 31,797,883	\$ (67,375,285)	\$ (1,208,100)
Shares issued on options exercised	196,025	3,328,091	(148,362)	-	3,179,729
Shares issued under Employee Share Purchase Plan	90,123	296,017	-	-	296,017
Shares repurchased and cancelled under the Normal Course Issuer Bid	(2,966,920)	(4,229,560)	-	(9,472,439)	(13,701,999)
Shares issued on acquisition	166,666	876,667	-	-	876,667
Share-based compensation expense	-	-	2,782,281	-	2,782,281
Net income and total comprehensive income	-	-	-	2,080,970	2,080,970
BALANCE, JUNE 30, 2011	43,680,498	\$ 34,640,517	\$ 34,431,802	\$ (74,766,754)	\$ (5,694,435)
Shares issued on options exercised	85,250	164,173	(53,265)	-	110,908
Shares issued under Employee Share Purchase Plan	93,502	308,313	-	-	308,313
Shares repurchased and cancelled under the Normal Course Issuer Bid	(683,000)	(735,284)	-	(2,042,281)	(2,777,565)
Share-based compensation expense	-	-	696,813	-	696,813
Net loss and total comprehensive loss	-	-	-	(1,883,947)	(1,883,947)
BALANCE, SEPTEMBER 30, 2011	43,176,250	\$ 34,377,719	\$ 35,075,350	\$ (78,692,982)	\$ (9,239,913)

See accompanying Notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Condensed Consolidated Statements of Cash Flow

Three months ended September 30, 2011 and 2010
(Expressed in United States dollars) (Unaudited)

	Notes	2011	2010
OPERATING ACTIVITIES			
Net (loss) income		\$ (1,883,947)	\$ 65,333
Items not involving cash			
Amortization of property and equipment		316,507	375,410
Amortization of acquired intangible assets	(Note 5)	1,336,856	1,327,829
Amortization of intangible assets – contract costs and brand	(Note 5)	1,468,903	1,225,417
Share-based compensation	(Note 9(f))	696,813	761,927
Deferred income taxes	(Note 10)	265,000	(732,597)
Gain on investments	(Note 3)	-	(1,316)
Unrealized foreign exchange loss (gain)		1,958,039	(873,899)
Non-cash interest and amortization of investment premium		13,829	136,929
Change in non-cash working capital			
Trade and other receivables		(2,576,900)	(1,166,068)
Prepaid expenses and other		(112,221)	39,136
Intangible assets – contract costs and brand additions	(Note 5)	(1,660,385)	(1,598,475)
Trade and other payables		(1,269,897)	(520,216)
Income tax payable		-	(265,620)
Accrued warranty		(30,000)	(30,000)
Deferred revenue		6,972,207	4,699,782
CASH FROM OPERATING ACTIVITIES		5,494,804	3,443,572
INVESTING ACTIVITIES			
Purchase of property and equipment		(123,531)	(266,992)
Proceeds from maturities of short-term investments		-	4,990,877
Purchase of short-term investments		-	(375,257)
Purchase of investments		-	(370,898)
CASH (USED IN) FROM INVESTING ACTIVITIES		(123,531)	3,977,730
FINANCING ACTIVITIES			
Repurchase of common shares for cancellation	(Note 9(b))	(2,777,565)	(3,276,197)
Issuance of common shares	(Note 9(b))	419,221	474,012
CASH USED IN FINANCING ACTIVITIES		(2,358,344)	(2,802,185)
FOREIGN EXCHANGE EFFECT ON CASH		(238,105)	590,340
INCREASE IN CASH AND CASH EQUIVALENTS		2,774,824	5,209,457
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		29,866,741	26,375,048
CASH AND CASH EQUIVALENTS, END OF PERIOD		\$ 32,641,565	\$ 31,584,505

SUPPLEMENTAL CASH FLOW INFORMATION (NOTE 11)

See accompanying notes to the Condensed Consolidated Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

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 endpoint management services and products. The Company's head office, principal address and registered office is Suite 1600, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 194. 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*

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

As these financial statements represent the Company's initial presentation of its financial position, financial performance and cash flows in accordance with IFRS, they have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting, and IFRS 1, "*First-Time Adoption of International Financial Reporting Standards*" ("IFRS 1"). Subject to certain transition elections disclosed in Note 16, the Company has consistently applied the same accounting policies in its opening IFRS statement of financial position as at July 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 16 discloses the impact of the transition to IFRS on the Company's reported financial position and results from operations, including the nature and effect of significant changes in accounting policies from those used in its Canadian GAAP consolidated financial statements for the three months ended September 30, 2010 and the year ended June 30, 2011.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

These unaudited interim condensed consolidated financial statements are based on IFRS issued and outstanding as of September 30, 2011. The Company will ultimately prepare its opening statement of financial position and financial statements for fiscal 2011 and 2012 by applying existing IFRS with an effective date of June 30, 2012 or prior. Accordingly, the opening statement of financial position and financial statements for fiscal 2011 and 2012 may differ from these financial statements.

These unaudited interim condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries; however, they do not include all disclosures normally provided in annual consolidated financial statements and should be read in conjunction with the fiscal 2011 annual consolidated financial statements, prepared in accordance with Canadian GAAP. Certain information and note disclosures which are considered material to the understanding of the Company's unaudited interim condensed consolidated financial statements and which are normally included in annual consolidated financial statements prepared in accordance with IFRS are provided below and in Note 16, along with reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on financial performance and financial position. Interim results are not necessarily indicative of the results expected for the fiscal year.

These unaudited interim condensed consolidated financial statements were prepared under the historical cost convention, except for certain items not carried at historical cost as discussed below.

(b) Significant Accounting Policies

Principles of consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. Principal (wholly owned) operating subsidiaries are:

- Absolute Software, Inc.
- Absolute Software EMEA Limited
- Absolute Technology GmbH
- Absolute Software (Asia) Pte. Ltd.
- Absolute Software K.K.

All significant intercompany balances and transactions are eliminated.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency transactions and translation

Items included in the consolidated financial statements of the Company and each of its subsidiaries are measured using the currency of the primary economic environment in which the individual entity operates (the “functional currency”). The consolidated financial statements are presented in United States dollars (“U.S. dollars”), which is the functional currency of the Company and the majority of its subsidiaries.

Foreign currency transactions, including U.S. and Canadian dollar, Great Britain pound, and European Euro operating transactions, are translated to U.S. dollars at the average exchange rate for the month. Monetary assets and liabilities are translated at period-end exchange rates. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss in the period in which they arise.

Foreign exchange gains and losses are presented in the statement of operations within foreign exchange gain (loss).

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value, normally being the transaction price plus directly attributable transaction costs. Transaction costs related to financial assets or financial liabilities at fair value through profit or loss (“FVTPL”) are recognized immediately in profit or loss.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Instrument	Classification	Measurement Basis
Cash and cash equivalents	Loans and receivables	Amortized cost
Short-term investments – <i>interest-bearing securities</i>	Available for sale	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Investments – <i>interest-bearing securities</i>	Available for sale	Amortized cost
Trade and other payables	Other liabilities	Amortized cost
Acquisition payable	Other liabilities	Amortized cost

Changes in items carried at fair value are recorded in the statement of operations, with the exception of available for sale financial assets where changes are recorded in other comprehensive income. All amounts carried at amortized cost are calculated using the effective interest rate method.

Estimated fair values for financial instruments are designed to approximate amounts at which the instruments could be exchanged in a current arm's-length transaction between knowledgeable willing parties.

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 three levels of the fair value hierarchy are:

- 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).

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

The fair value of investments designated as available-for-sale is recorded in the consolidated statement of financial position, with unrealized gains and losses, net of related income taxes, recorded in Accumulated Other Comprehensive Income ("AOCI"). The cost of investments sold is based on the weighted average method. Realized gains and losses on these investments are removed from AOCI and recorded in the statement of operations.

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

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

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 whose maturity dates are less than one year from the date of the statement of financial position are classified as short term.

Trade and other receivables

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost less provision for impairment of trade accounts receivable. A provision for impairment of trade accounts receivable is established when there is a reasonable expectation that the Company will not be able to collect all amounts due. The carrying amount of the trade receivables is reduced through the use of the provision for impairment account, and the amount of any increase in the provision for impairment is recognized in the consolidated statements of operations. When a trade receivable is uncollectible, it is written off against the provision for impairment account for trade accounts receivable. Subsequent recoveries of amounts previously written off are credited to the consolidated statements of operations.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments consist of highly liquid interest bearing securities with maturities at the date of purchase or the date of the statement of financial position of greater than one year.

Property and equipment

Property and equipment are carried at cost, less accumulated depreciation, less any recognized impairment loss. Each component of an item of property and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. When the cost of replacing part of an item of property and equipment is capitalized, the carrying amount of the replaced part is derecognized. Maintenance and repair expenditures that do not improve or extend productive life are expensed in the period incurred.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the depreciation period or method, as appropriate, and are treated as changes in accounting estimates.

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets acquired in business combinations and pursuant to asset purchases are recorded at their fair values. Intangible assets related to the acquisition of patents from third parties 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, and the amounts of royalties paid.

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.

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; the 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 September 30, 2011, the Company has not capitalized any development costs.

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	
Software – LANrev	5 years
Contract costs	Average contract term
Customer relationships – LANrev	5 years
Software – FailSafe and Freeze	3 years
Patents	Term of the patent
Brand – LoJack warrants	5 years

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Accrued warranty

The Company provides a service guarantee, or warranty, on certain of its theft recovery offerings. The warranty forms part of certain product offerings 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.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

At the end of each reporting period, estimates of future cash outflows under the service guarantee are made using the best information available of the cost of the warranty for events up to the date of the statement of financial position. The carrying amount of the warranty liability is adjusted to those estimates, with changes recognized in the statement of operations. The warranty liability is estimated based on a number of factors, including the volume of computer thefts reported to the Company at each reporting date, an estimate of the number of thefts that have not yet been reported as at each reporting date, the computer theft recovery rate, and historical warranty experience. The liability balance is drawn down by service guarantee payments issued.

Income taxes

The tax expense for the period comprises current and deferred income tax. Taxation is recognized in the statement of operations except to the extent that it relates to items recognized directly in equity, in which case the tax is recognized in equity.

Current income tax is generally the expected income tax payable on the taxable income for the year calculated using rates enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries operate and generate taxable income, and includes any adjustment to income tax payable or recoverable in respect of previous years.

Uncertain income tax positions are accounted for using the standards applicable to current income tax assets and liabilities; i.e., both liabilities and assets are recorded when probable at the Company's best estimate of the amount.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each date of the statement of financial position and amended to the extent that it is no longer probable that the related tax benefit will be realized.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Current income tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Normally the Company would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Company to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

Deferred income tax is recognized using the liability method, based on temporary differences between consolidated financial statement carrying amounts of assets and liabilities and their respective income tax bases. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. The amount of deferred income tax recognized is based on the expected manner and timing of realization or settlement of the carrying amount of assets and liabilities. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets are reviewed at each date of the statement of financial position and amended to the extent that it is no longer probable that the related tax benefit will be realized.

Current income tax assets and liabilities are offset when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously. Normally the Company would only have a legally enforceable right to set off a current tax asset against a current tax liability when they relate to income taxes levied by the same taxation authority and the taxation authority permits the Company to make or receive a single net payment. Deferred income tax assets and liabilities are offset when the Company has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

The Company sells services and products including computer theft recovery, secure asset tracking, and endpoint management. Revenue represents the fair value of consideration received or receivable from clients for services and products provided by the Company, net of discounts. 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, as they include software licensing, asset monitoring, theft recovery, and maintenance and support services over the term. These elements are typically not separable for accounting purposes, and as a result, revenue from sales contracts is recognized ratably over the subscription term. Direct contract acquisition costs associated with sales contracts are deferred and amortized over the same period (see "Intangible Assets" above).

A portion of the Company's sales contracts are accounted for as product revenue. Product revenue is recognized when the Company has an executed agreement, the product has been delivered, the amount of the fee to be paid by the customer is fixed and determinable, and the collection of the related receivable is deemed probable from the outset of the arrangement.

Post-contract support, or maintenance, revenue associated with certain of the Company's products is recognized on a straight-line basis over the maintenance term, which is generally one year. Revenue not recognized in profit or loss under this policy is classified as deferred revenue in the statement of financial position when amounts have been billed in advance.

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

Deferred revenue is comprised of the remaining unamortized balance of sales contracts sold.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cost of Goods Sold

The primary components of cost of goods sold are employee compensation, employee benefits, amortization of intangible assets, guarantee expenses, travel, services, and operating supplies.

Sales and Marketing

The primary components of sales and marketing are employee compensation, employee benefits, amortization of intangible assets, office and communications, travel, and professional services.

Research and development

The primary components of research and development expenses are employee compensation, employee benefits, professional services, communications, and travel.

General and administration

The primary components of general and administration are employee compensation, employee benefits, communications, travel, public company administration, insurance, and professional services.

Share-based compensation plans

The Company has a stock option plan and an employee share purchase plan, which are described in Notes 9(c) and 9(d). When stock or stock options are issued to employees, the Company records the estimated fair value of each vesting tranche of the share-based awards as compensation expense related vesting period of each tranche with a corresponding credit to equity reserve. Forfeitures are estimated on the date of grant. Upon exercise of stock options or purchase of common shares, any consideration paid by employees, together with the amount previously recorded in equity reserve, is credited to share capital.

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

ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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 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 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.

(c) Significant accounting judgment

The critical judgment that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (Note 2(d)), that has the most significant effect on the amounts recognized in the Company's interim condensed consolidated interim financial statements is related to determination of the functional currency for the Company and its subsidiaries.

(d) Significant accounting estimates

The preparation of these interim condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. The interim condensed consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the interim condensed consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, include, but are not limited to, the following:

- the assessment of the carrying values of allowances for unrecoverable accounts receivable and long-lived assets;
- the inputs used in accounting for share-based compensation in the statement of operations;
- the estimates used to determine the Company's warranty liability; and
- the valuation and recoverability of the Company's deferred tax assets.

(e) Adoption of Future Accounting Standards

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

The following is a description of the new standards:

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

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

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

ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

IFRS 10 – “Consolidation” (“IFRS 10”)

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

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

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

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

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

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

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

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3. SHORT-TERM INVESTMENTS AND INVESTMENTS

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

	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Investment grade securities	\$ 17,420,511	\$ 6,263,730
Term deposits	667,210	700,859
	<u>\$ 18,087,721</u>	<u>\$ 6,964,589</u>

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

For the three months ended September 30, 2010, the Company's gain on investments was comprised entirely of an unrealized gain on marketable securities.

4. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables are comprised of the following:

	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Trade receivables	\$ 18,903,025	\$ 17,007,683
Other receivables	294,559	627,303
Allowance for doubtful accounts	(446,558)	(1,460,860)
	<u>\$ 18,751,026</u>	<u>\$ 16,174,126</u>

At September 30, 2011, 17% of the Company's accounts receivable balance is over 90 days past due (June 30, 2011 – 20%). As at September 30, 2011, 29%, 21%, and 13% (June 30, 2011 - 29%, 18%, and 11%) of the receivable balances are owing from three OEM and reseller partners.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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5. INTANGIBLE ASSETS

	September 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Software – LANrev	\$ 14,510,255	\$ 5,447,374	\$ 9,062,881
Contract costs	15,328,804	7,317,373	8,011,431
Customer relationships – LANrev	465,539	159,456	306,043
Software – FailSafe/Freeze	7,058,432	3,525,556	3,532,876
Patents	159,487	36,110	123,377
Brand rights – LoJack	854,704	712,943	141,761
	\$ 38,377,221	\$ 17,198,852	\$ 21,178,369

	June 30, 2011		
	Cost	Accumulated Amortization	Net Book Value
Software – LANrev	\$ 14,510,255	\$ 4,731,300	\$ 9,778,955
Contract costs	14,740,759	6,912,971	7,827,788
Customer relationships – LANrev	465,538	135,335	330,203
Software – FailSafe/Freeze	7,058,432	2,937,963	4,120,469
Patents	159,487	27,083	132,404
Brand rights – LoJack	839,899	705,977	133,922
	\$ 37,774,370	\$ 15,150,629	\$ 22,323,741

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

5. INTANGIBLE ASSETS (Continued)

The following tables summarize intangible asset activity for the three months ended September 30, 2011 and 2010:

	Three months ended September 30, 2011			
	Net book value - opening	Additions	Amortization	Net book value - ending
Software – LANrev	\$ 9,778,955	\$ -	\$ 716,074	\$ 9,062,881
Contract costs	7,827,789	1,611,215	1,427,573	8,011,431
Customer relationships – LANrev	330,204	-	24,161	306,043
Software – FailSafe/Freeze	4,120,469	-	587,593	3,532,876
Patents	132,405	-	9,028	123,377
Brand rights – LoJack	133,921	49,170	41,330	141,761
	\$ 22,323,743	\$ 1,660,385	\$ 2,805,759	\$ 21,178,369

	Three months ended September 30, 2010			
	Net book value - opening	Additions	Amortization	Net book value - ending
Software – LANrev	\$ 12,653,031	\$ -	\$ 716,075	\$ 11,936,956
Contract costs	7,047,348	1,521,762	1,179,874	7,389,236
Customer relationships – LANrev	426,849	-	24,161	402,688
Software – FailSafe/Freeze	6,470,840	-	587,593	5,883,247
Brand rights – LoJack	152,484	76,713	45,543	183,654
	\$ 26,750,552	\$ 1,598,475	\$ 2,553,246	\$ 25,795,781

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

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6. TRADE AND OTHER PAYABLES

The Company's trade and other payables are comprised of the following:

	<u>September 30, 2011</u>	<u>June 30, 2011</u>
Trade payables	\$ 3,099,363	\$ 2,582,838
Payroll and employee benefits	2,119,297	3,170,155
Accrued liabilities	1,469,484	4,176,831
Sales taxes payable	347,360	454,803
Lease inducements	225,380	270,201
	<u>\$ 7,260,884</u>	<u>\$ 8,768,886</u>

7. ACCRUED WARRANTY

The following table summarizes changes in the accrued warranty for the three months ended September 30, 2011 and 2010:

	<u>Three months ended September 30,</u>	
	<u>2011</u>	<u>2010</u>
Balance, beginning of period	\$ 880,000	\$ 1,020,000
Warranty accrual	462,900	568,127
Guarantee payments	(492,900)	(598,127)
Balance, end of period	<u>\$ 850,000</u>	<u>\$ 990,000</u>

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

8. DEFERRED REVENUE

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

	Three months ended September 30,	
	2011	2010
Balance, beginning of period	\$ 111,178,837	\$ 100,187,887
Sales contracts	25,303,407	21,059,530
Revenue recognized	(18,246,507)	(16,326,555)
Other adjustments	(84,693)	(33,193)
Balance, end of period	118,151,044	104,887,669
Less: current portion	(58,811,304)	(54,172,864)
	<u>\$ 59,339,740</u>	<u>\$ 50,714,805</u>

9. 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 months ended September 30, 2011, the Company issued 85,250 common shares on exercise of employee stock options for total proceeds of \$110,908. An amount of \$53,265 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the three months ended September 30, 2011, the Company issued 93,502 common shares pursuant to its employee share purchase plan for total proceeds of \$308,313.

During the three months ended September 30, 2010, the Company issued 100,750 common shares on exercise of employee stock options for total proceeds of \$150,095. An amount of \$78,017 related to the original fair value of the options was transferred from equity reserve to common shares upon exercise.

During the three months ended September 30, 2010, the Company issued 94,864 common shares pursuant to its employee share purchase plan for total proceeds of \$323,917.

ABSOLUTE SOFTWARE CORPORATION

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9. SHARE CAPITAL (Continued)

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 purchase" 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").

Under the Bids, in the three months ended September 30, 2011, the Company repurchased 683,000 common shares for a total cost of \$2,777,565 (2010 – 830,100 common shares for a cost of \$3,276,197). On repurchase of the common shares, the difference between the purchase price and the average book value of the common shares is recorded in deficit, amounting in 2011 to \$2,042,281 (2010 - \$2,786,894).

(c) *Stock Option Plan*

The Company's share-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 September 30, 2011, the maximum number of common shares available under the Option Plan was 5,181,150 (June 30, 2011 - 5,241,660), of which 674,549 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.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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9. SHARE CAPITAL (Continued)

The following table summarizes activity under the Option Plan for the three months ended September 30, 2011 and 2010:

	Three months ended September 30,			
	2011		2010	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Outstanding, beginning of period	4,725,951	\$ 4.55	4,707,925	\$ 4.87
Granted	-	-	142,500	4.10
Exercised	(85,250)	1.29	(100,750)	1.55
Forfeited	(27,975)	5.39	(89,100)	4.98
Expired	(106,125)	6.65	(52,250)	9.04
Outstanding, end of period	4,506,601	\$ 4.56	4,608,325	\$ 4.87

Fair values – Option Plan

Stock options were not granted in the three months ended September 30, 2011, accordingly, the total fair value and weighted average grant date fair value was \$nil. The total fair value of options granted under the Option Plan in the three months ended September 30, 2010 was \$173,600. The weighted average grant date fair value of options granted during the three months ended September 30, 2010 was \$1.22.

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 September 30,	
	2011	2010
Risk-free interest rate	-	1.0%
Dividend yield	-	0%
Expected life (in years)	-	3.0
Volatility	-	60%

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

9. 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, 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 \$1,252,393, with a weighted average grant date fair value of \$2.50. 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 using the Black-Scholes option pricing model assuming no dividend yield, an expected life of three years, volatility of 78%, and a risk-free interest rate of 0.5%. At September 30, 2011, 166,667 Non-standard Options had vested and remained outstanding, and none had been exercised or forfeited.

(e) *Employee Share Purchase Plan*

The Company's share-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 months ended September 30, 2011, 93,502 common shares (2010 – 94,864 common shares) were issued from treasury under the Purchase Plan at a weighted average price of \$3.30 (2010 - \$3.41) per share.

At September 30, 2011, 1,006,332 common shares remained available for grant under the Purchase Plan.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

9. SHARE CAPITAL (Continued)

(f) Share-based compensation

The Company's share-based compensation for the three months ended September 30, 2011 and 2010 was comprised as follows:

	2011	2010
Stock option plan	\$ 558,702	\$ 733,234
Non-standard Options	107,013	-
Employee share purchase plan	31,098	28,693
	\$ 696,813	\$ 761,927

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

	2011	2010
Cost of revenue	\$ 72,756	\$ 116,054
Sales and marketing	331,793	332,901
Research and development	169,167	195,781
General and administration	123,097	117,191
	\$ 696,813	\$ 761,927

(g) Potentially dilutive securities and diluted number of shares outstanding

For the three months ended September 30, 2011, the basic and diluted weighted average number of common shares outstanding was the same, and 459,138 share purchase options were excluded from diluted loss per share as their effect would have been anti-dilutive.

For the three months ended September 30, 2010, the diluted weighted average number of common shares outstanding was 47,061,378.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

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10. 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 deferred income tax deductions is dependent upon the profitable operations of the Company in the tax jurisdictions in which such losses or deductions arise.

For the three months ended September 30, 2011, the Company recorded a current tax expense of \$575,000 (2010 – \$230,000), and a deferred income tax expense of \$265,000 (2010 – \$40,000), based on the expected effective tax rates applicable to the Company's operations for the year ended June 30, 2012. As of September 30, 2011, the Company had total net deferred tax assets of \$20.6 million (June 30, 2011 - \$20.8 million), primarily related to deferred revenue balances, and current income taxes payable of \$nil (June 30, 2011 - \$nil).

The ultimate realization of deferred 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 deferred tax assets and liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the deferred 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, deferred tax assets and operating loss carry-forwards.

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

11. SUPPLEMENTAL CASH FLOW INFORMATION

Composition of cash and cash equivalents

	<u>September 30, 2011</u>	<u>June 30, 2010</u>
Cash	\$ 16,112,239	\$ 29,629,071
Cash equivalents	<u>16,529,326</u>	<u>237,670</u>
	<u>\$ 32,641,565</u>	<u>\$ 29,866,741</u>

Other cash flow information

	<u>2011</u>	<u>2010</u>
<i>Non-cash investing and financing activities</i>		
Accrued purchases of property and equipment	\$ 16,277	\$ -

12. 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 have not changed from the year ended June 30, 2011, with the exception of foreign currency risk as outlined below.

(b) *Foreign currency risk*

The Company operates internationally, primarily in the United States, giving rise to exposure to market risks from foreign exchange rates. The Company's functional currency is the U.S. dollar. However, the Company maintains net Canadian dollar asset positions, and therefore records gains in periods of rising Canadian dollar exchange rates and losses in periods of declining rates. Canadian dollar 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 Canadian dollar appreciates.

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12. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

Foreign Currency Sensitivity Analysis

Excess Canadian dollar balances are converted to U.S. dollars on a regular basis. The Company typically does not enter foreign currency hedges. Further appreciation in the Canadian dollar relative to the U.S. dollar could impact the Company's ability to continue at current operating margins as a significant amount of operating costs are denominated in Canadian dollars.

The Company is exposed to fluctuations in the Canadian dollar, through Canadian dollar working capital balances and operating expenses. The Company's sensitivity to a 1% strengthening of the Canadian dollar against the U.S. dollar is an approximate decrease of \$350,000 in annual operating income and a \$110,000 increase in net loss. For a 1% weakening of the Canadian dollar against the U.S. dollar, there would be an equal and opposite impact on operating income and net loss.

13. SEGMENTED INFORMATION

The Company carries on business in the computer security monitoring and endpoint 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 September 30,	
	2011	2010
Revenue		
United States	\$ 16,499,654	\$ 14,923,212
Rest of world	1,069,323	846,585
Canada	730,735	556,759
	<u>\$ 18,246,507</u>	<u>\$ 16,326,556</u>
	September 30, 2011	June 30, 2011
Long-lived assets		
Canada	\$ 15,684,845	\$ 17,086,560
United States and rest of world	7,141,372	7,078,007
	<u>\$ 22,826,217</u>	<u>\$ 24,164,567</u>

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

In order to establish and defend its proprietary rights and patent portfolio, the Company is also the initiating party in two 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.

15. SUBSEQUENT EVENTS

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

ABSOLUTE SOFTWARE CORPORATION

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(Expressed in United States dollars) (Unaudited)

16. ADOPTION OF IFRS

Overview

The effect of the Company's transition to IFRS, as described in note 2, is summarized as follows: (a) transition elections; (b) reconciliation of equity and comprehensive income (loss) as previously reported under Canadian GAAP to IFRS; (c) explanatory notes; (d) adjustments to the consolidated interim statements of cash flows; and (e) additional IFRS information and disclosures for the year ended June 30, 2011.

Transition elections

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

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

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

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

ABSOLUTE SOFTWARE CORPORATION

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16. ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Financial Position as at July 1, 2010

	Notes	Canadian GAAP - CAD	IFRS Adjustments and Reclassifications	IFRS - USD
ASSETS				
CURRENT				
Cash and cash equivalents	(d)	\$ 28,078,851	\$ (1,703,803)	\$ 26,375,048
Short-term investments	(d)	6,420,210	(389,601)	6,030,609
Trade and other receivables	(d)	13,888,239	(836,867)	13,051,372
Prepaid expenses and other	(d)	1,149,428	(69,556)	1,079,872
Deferred contract costs - current	(b)(d)	4,038,159	(4,038,159)	-
Deferred (future) income tax assets - current	(d)(e)	9,904,709	(9,904,709)	-
		63,479,596	(16,942,695)	46,536,901
INVESTMENTS	(d)	23,527,677	(1,428,130)	22,099,547
DEFERRED CONTRACT COSTS	(b)(d)	3,744,051	(3,744,051)	-
PROPERTY AND EQUIPMENT	(d)	2,754,271	(337,266)	2,417,005
DEFERRED (FUTURE) INCOME TAX ASSETS	(d)(e)	10,308,983	7,931,832	18,240,815
INTANGIBLE ASSETS	(b)(d)	20,477,801	6,272,751	26,750,552
		\$ 124,292,379	\$ (8,247,559)	\$ 116,044,820
LIABILITIES				
CURRENT				
Trade and other payables	(d)	\$ 8,183,219	\$ (495,012)	\$ 7,688,207
Income tax payable	(d)	1,575,000	(95,602)	1,479,398
Acquisition payable – current	(d)	1,728,607	(104,926)	1,623,681
Accrued warranty – current	(a)(d)	4,702,888	(3,682,888)	1,020,000
Deferred revenue – current	(a)(d)	52,411,595	(904,397)	51,507,198
		68,601,309	(5,282,825)	63,318,484
ACQUISITION PAYABLE	(d)	3,457,214	(178,392)	3,278,822
ACCRUED WARRANTY	(a)(d)	4,518,461	(4,518,461)	-
DEFERRED REVENUE	(a)(d)	50,346,988	(1,666,299)	48,680,689
		126,923,972	(11,645,977)	115,277,995
SHAREHOLDERS' DEFICIENCY				
Share Capital	(d)	44,888,407	(10,581,831)	34,306,576
Equity reserve	(c)(d)	28,393,491	2,720,482	31,113,973
Deficit		(75,913,491)	11,259,767	(64,653,724)
		(2,631,593)	3,398,418	766,825
		\$ 124,292,379	\$ (8,247,559)	\$ 116,044,820

ABSOLUTE SOFTWARE CORPORATION

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16. ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Financial Position as at September 30, 2010

	Notes	Canadian GAAP - CAD	IFRS Adjustments and Reclassifications	IFRS - USD
ASSETS				
CURRENT				
Cash and cash equivalents	(d)	\$ 32,500,579	\$ (916,074)	\$ 31,584,505
Short-term investments	(d)	1,615,470	(45,551)	1,569,919
Trade and other receivables	(d)	14,631,069	(413,629)	14,217,440
Prepaid expenses and other	(d)	1,070,999	(30,263)	1,040,736
Deferred contract costs - current	(b)(d)	4,324,051	(4,324,051)	-
Deferred (future) income tax assets - current	(d)(e)	10,151,179	(10,151,179)	-
		64,293,347	(15,880,747)	48,412,600
INVESTMENTS	(d)	23,780,593	(670,613)	23,109,980
DEFERRED CONTRACT COSTS	(b)(d)	3,810,940	(3,810,940))	-
PROPERTY AND EQUIPMENT	(d)	2,631,268	(322,681)	2,308,587
DEFERRED (FUTURE) INCOME TAX ASSETS	(d)(e)	10,565,513	8,407,899	18,973,412
INTANGIBLE ASSETS	(b)(d)	19,092,414	6,703,367	25,795,781
		\$ 124,174,075	\$ (5,573,715)	\$ 118,600,360
LIABILITIES				
CURRENT				
Trade and other payables	(d)	\$ 7,983,866	\$ (225,535)	\$ 7,758,331
Income tax payable	(d)	1,249,000	(35,222)	1,213,778
Acquisition payable – current	(d)	1,728,607	(48,747)	1,679,860
Accrued warranty – current	(a)(d)	4,615,160	(3,625,160)	990,000
Deferred revenue – current	(a)(d)	54,726,795	(553,931)	54,172,864
		70,303,428	(4,488,595)	65,814,833
ACQUISITION PAYABLE	(d)	3,457,214	(178,392)	3,278,822
ACCRUED WARRANTY	(a)(d)	4,434,173	(4,434,173)	-
DEFERRED REVENUE	(a)(d)	52,176,346	(1,461,541)	50,714,805
		130,371,161	(10,562,701)	119,808,460
SHAREHOLDERS' DEFICIENCY				
Share Capital	(d)	44,762,860	(10,393,558)	34,369,302
Equity reserve	(c)(d)	28,971,001	2,826,882	31,797,883
Deficit		(79,930,947)	12,555,662	(67,375,285)
		(6,197,086)	4,988,986	(1,208,100)
		\$ 124,174,075	\$ (5,573,715)	\$ 118,600,360

ABSOLUTE SOFTWARE CORPORATION

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Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

16. ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Financial Position as at June 30, 2011

	Notes	Canadian GAAP - CAD	IFRS Adjustments and Reclassifications	IFRS - USD
ASSETS				
CURRENT				
Cash and cash equivalents	(d)	\$ 28,805,213	\$ 1,061,528	\$ 29,866,741
Short-term investments	(d)	6,717,387	247,202	6,964,589
Trade and other receivables	(d)	15,599,349	574,777	16,174,126
Prepaid expenses and other	(d)	1,541,225	56,790	1,598,015
Deferred contract costs - current	(b)(d)	4,392,364	(4,392,364)	-
Deferred (future) income tax assets - current	(d)(e)	9,973,479	(9,973,479)	-
		67,029,017	(12,425,546)	54,603,471
INVESTMENTS	(d)	18,234,407	671,026	18,905,433
DEFERRED CONTRACT COSTS	(b)(d)	3,840,284	(3,840,284)	-
PROPERTY AND EQUIPMENT	(d)	2,114,704	(273,880)	1,840,824
DEFERRED (FUTURE) INCOME TAX ASSETS	(d)(e)	10,387,213	10,458,256	20,845,469
INTANGIBLE ASSETS	(b)(d)	15,061,026	7,262,717	22,323,743
		\$116,666,651	\$ 1,852,289	\$ 118,518,940
LIABILITIES				
CURRENT				
Trade and other payables	(d)	\$ 8,456,941	\$ 311,945	\$ 8,768,886
Acquisition payable – current	(d)	1,666,916	95,695	1,762,611
Accrued warranty – current	(d)	4,457,446	(3,577,446)	880,000
Deferred revenue – current	(a)(d)	55,355,122	568,190	55,923,312
	(a)(d)	69,936,425	(2,601,616)	67,334,809
ACQUISITION PAYABLE		1,677,698	(54,657)	1,623,041
ACCRUED WARRANTY	(d)	4,282,644	(4,282,644)	-
DEFERRED REVENUE	(a)(d)	53,995,248	1,260,277	55,255,525
	(a)(d)	129,892,015	(5,678,640)	124,213,375
SHAREHOLDERS' DEFICIENCY				
Share Capital		45,245,075	(10,604,558)	34,640,517
Equity reserve	(d)	30,925,971	3,505,831	34,431,802
Deficit		(89,396,410)	14,629,656	(74,766,754)
		(13,225,364)	7,530,929	(5,694,435)
		\$116,666,651	\$ 1,852,289	\$ 118,518,940

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

(Expressed in United States dollars) (Unaudited)

16. ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Operations and Comprehensive (Loss) Income for the three months ended September 30, 2010

	Notes	Canadian GAAP - CAD	IFRS Adjustments and Reclassifications	IFRS - USD
REVENUE	(d)	\$ 17,348,833	\$ (1,022,278)	\$ 16,326,555
COST OF REVENUE	(a)(d)	4,886,579	101,438	4,988,017
GROSS MARGIN		12,462,254	(1,123,716)	11,338,538
OPERATING EXPENSES				
Sales and marketing	(d)	9,280,440	(396,251)	8,884,189
Research and development	(d)	2,612,696	307,998	2,920,694
General and administration	(d)	2,077,232	(512,464)	1,564,768
Investment tax credits	(d)	(396,000)	12,632	(383,368)
Share-based compensation	(c)(d)	663,537	98,390	761,927
		14,237,905	(489,695)	13,748,210
OPERATING (LOSS)		(1,775,651)	(634,021)	(2,409,672)
OTHER INCOME				
Interest income, net	(d)	188,840	(7,087)	181,753
Foreign exchange (loss) gain	(d)	(176,928)	1,804,034	1,627,106
Gain on investments	(d)	565	751	1,316
		12,477	1,797,698	1,810,175
NET LOSS BEFORE INCOME TAXES		(1,763,174)	1,163,677	(599,497)
INCOME TAX RECOVERY	(d)	433,000	231,830	664,830
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME		\$ (1,330,174)	\$ 1,395,507	\$ 65,333
BASIC AND DILUTED (LOSS) INCOME PER SHARE		\$ (0.03)		\$ 0.00

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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(Expressed in United States dollars) (Unaudited)

16. ADOPTION OF IFRS (Continued)

Reconciliation of Statement of Operations and Comprehensive (Loss) Income for the year ended June 30, 2011

	Notes	Canadian GAAP - CAD	IFRS Adjustments and Reclassifications	IFRS - USD
REVENUE	(d)	\$ 72,198,733	\$ (4,212,362)	\$ 67,986,371
COST OF REVENUE	(a)(d)	18,891,474	389,164	19,280,638
GROSS MARGIN		53,307,259	(4,601,526)	48,705,733
OPERATING EXPENSES				
Sales and marketing	(d)	33,044,846	(781,452)	32,263,394
Research and development	(d)	11,641,015	(17,540)	11,623,475
General and administration	(d)	7,980,932	(108,031)	7,872,901
Investment tax credits	(d)	(3,208,000)	(26,728)	(3,234,728)
Share-based compensation	(c)(d)	2,783,899	760,309	3,544,208
		52,242,692	(173,442)	52,069,250
OPERATING INCOME (LOSS)		1,064,567	(4,428,084)	(3,363,517)
OTHER (EXPENSE) INCOME				
Interest income, net	(d)	742,573	822	743,395
Foreign exchange (loss) gain	(d)	(1,756,078)	5,270,337	3,514,259
Gain on investments	(d)	287,499	(4,145)	283,354
		(726,006)	5,267,014	4,541,008
NET INCOME BEFORE INCOME TAXES		338,561	838,930	1,177,491
INCOME TAX (EXPENSE) RECOVERY	(d)	(1,486,000)	2,454,812	968,812
NET (LOSS) INCOME AND COMPREHENSIVE (LOSS) INCOME		\$ (1,147,439)	\$ 3,293,742	\$ 2,146,303
BASIC AND DILUTED LOSS PER SHARE		\$ (0.03)		\$ 0.05

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

Three months ended September 30, 2011 and 2010

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16. ADOPTION OF IFRS (Continued)

Explanatory notes

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

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

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

ABSOLUTE SOFTWARE CORPORATION

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16. ADOPTION OF IFRS (Continued)

(c) Share-based compensation. Under Canadian GAAP, each stock option grant was treated as a single arrangement and compensation expense was determined at the time of grant and amortized over the vesting period, generally 48 months, on a straight-line basis. IFRS requires a separate calculation of compensation expense for awards that vest in instalments. Under Canadian GAAP, forfeitures of the share-based compensation awards could be accounted for in the period in which the forfeitures occurred. Under IFRS, compensation expense differs from Canadian GAAP based on the changing fair values used for each instalment, the application of the forfeiture rate and the timing of recognizing compensation expense. Generally, this results in accelerated expense recognition under IFRS. On the Transition Date, the Company recognized additional compensation expense of \$4,993,006, which increased the Company's deficit, with a corresponding offset to equity reserve. Total shareholders' deficiency was not affected. Under IFRS, as compared to Canadian GAAP, share-based compensation expense for the year ended June 30, 2011 increased by \$763,993 (three months ended September 30, 2010 — \$123,276).

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

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

ABSOLUTE SOFTWARE CORPORATION

Notes to the Condensed Consolidated Financial Statements

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16. ADOPTION OF IFRS (Continued)

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

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

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16. ADOPTION OF IFRS (Continued)

Additional annual disclosures as required by IFRS

The following table summarizes property and equipment activity for the year ended June 30, 2011:

	Year ended June 30, 2011			
	Net book value - opening	Additions	Amortization	Net book value – ending
Computer equipment	\$ 1,288,887	\$ 581,519	\$ 961,069	\$ 909,337
Furniture and equipment	362,663	3,560	110,977	255,246
Computer software	62,906	168,727	112,606	89,027
Office equipment	506,611	333,172	375,698	464,085
Trade show equipment	6,333	-	6,040	293
Leasehold improvements	189,605	-	66,771	122,834
	\$ 2,417,005	\$ 1,086,980	\$ 1,663,161	\$ 1,840,824

The following table summarizes intangible asset activity for the year ended June 30, 2011:

	Year ended June 30, 2011			
	Net book value - opening	Additions	Amortization	Net book value – ending
Software – LANrev	\$ 12,653,031	\$ -	\$ 2,874,077	\$ 9,778,954
Contract costs	7,047,348	5,826,483	5,046,042	7,827,789
Customer relationships – LANrev	426,849	-	96,645	330,204
Software – FailSafe/Freeze	6,470,840	-	2,350,370	4,120,470
Patents	-	159,487	27,083	132,404
Brand rights – LoJack warrants	152,484	159,669	178,231	133,922
	\$ 26,750,552	\$ 6,145,639	\$ 10,679,143	\$ 22,323,743