ABSOLUTE SOFTWARE CORPORATION

Annual Information Form

For the Year Ended June 30, 2010

August 23, 2010

AIF to be read in conjunction with the Audited Consolidated Financial Statements and Management Discussion and Analysis for the Year Ended June 30, 2010

This Annual Information Form ("AIF") contains certain forward-looking statements, which relate to future events or the Company's future performance, that include terms such as "will", "intend", "anticipate", "could", "should", "may", "might", "expect", "estimate", "forecast", "plan", "potential", "project", "assume", "contemplate", "believe", "shall" and similar terms. These statements involve known and unknown risks, uncertainties and other factors that are beyond the Company's control, which may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Absolute believes the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in, or incorporated by reference into, this AIF should not be unduly relied upon. These statements speak only as of the date of this AIF or as of the date specified in the documents incorporated by reference into this AIF.

This AIF, and the documents incorporated by reference, contain forward-looking statements pertaining to expectations which include, but are not limited to: (a) a continuing need for laptop data protection, theft recovery services and computer lifecycle management solutions in difficult economic times; (b) the continued successful integration of recently-acquired products and technologies; (c) an increase in computer refresh/replacement cycles; (d) the attainment of certain sales and cash flow targets and company performance; (e) increased adoption, or attach, rates of the Company's lifecycle management, computer tracking, and computer theft recovery solutions; (f) the ability of the Company to successfully execute on its growth strategies, including attracting new distribution partners; (g) continuation of embedded firmware support from its current and anticipated PC OEM partners; (h) the demand for its products continuing to increase; (i) stable currency valuations and a sufficiently stable and healthy global economic and business environment; (j) the ability of the Company to access and gain traction in international markets and that such markets are growing as anticipated; and (j) other expectations, intentions and plans contained in this document that are not historical fact.

With respect to forward-looking statements contained in this AIF, the Company has made a number of assumptions. The key assumptions underlying the aforementioned forward-looking statements are that: (a) the data security and endpoint lifecycle management markets will converge, and Absolute will be able to capitalize on this shift as a result of its recent acquisitions and an expanded product and feature set; (b) worldwide computer shipments will continue to grow, and Absolute will benefit from this trend through increased sales as a result of our investments in global sales and marketing and PC OEM partnerships; (c) our expiring subscription ratio will improve as a result of an increase in computer shipments; (d) our investments in future growth of the business will generate returns as the worldwide computer market rebounds; (e) Absolute will be able to continue to add new products and features on a global scale; and (f) Absolute will expand its portfolio of intellectual property, including patents. Certain or all of the forgoing assumptions may prove to be incorrect which could negatively impact the Company's business and the anticipated results discussed herein.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of substantial known and unknown risks and uncertainties, certain of which are beyond the Company's control. Such risks and uncertainties include, without limitation: risks associated with increased competition from other producers; the impact of general, economic conditions in Canada, the United States and overseas; industry conditions, changes in technology, changes in laws and regulations (including the adoption of new privacy and data collection laws and regulations) and changes in how they are interpreted and enforced; changes in federal and provincial tax laws and legislation; the lack of availability of qualified personnel or management; fluctuations in foreign exchange or interest rates; stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof; and obtaining required approvals of regulatory authorities. Readers are cautioned that the foregoing list of risks to the Company's performance is not exhaustive and reference is made to the items under "Risk Factors" in this AIF and the Company's Annual Management's Discussion and Analysis ("MD&A") for the year ended June 30, 2010. All subsequent forward-looking statements, whether written or oral, attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by these cautionary statements. Furthermore, the forward-looking statements contained in this AIF are made as at the date hereof and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws.

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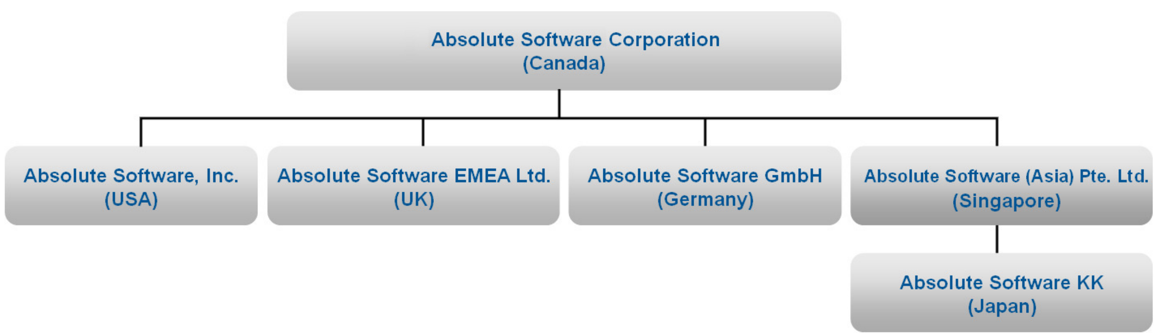
COMPANY OVERVIEW

Absolute® Software Corporation ("Absolute", the "Company", or "we") helps organizations overcome the security risks and asset management challenges associated with desktop and mobile end devices. The Company's patented Computrace® technology platform allows Absolute's products to be delivered in a Software-as-a-Service ("SaaS") model over the Internet or as licensed software installed at the customer's site. Customers include corporations, educational institutions, healthcare and government organizations, and individual consumers who use these products to secure and manage their computing assets.

Absolute's mission is to be the industry's trusted provider of solutions for the management and security of computers and mobile devices.

Absolute was incorporated in 1993 under the predecessor statute of the British Columbia *Business Corporations Act*. Its head office and principal place of business is located at Suite 1600, Four Bentall Centre, 1055 Dunsmuir Street, PO Box 49211, Vancouver, British Columbia, V7X 1K8. Absolute has offices in major cities throughout North America as well as in the United Kingdom, the Netherlands, Germany, Singapore and Japan. Absolute's registered office is located at 1600 – 1055 W. Georgia Street, P.O. Box 11117, Vancouver, British Columbia, V6E 4N7.

The following chart sets out the ownership and the jurisdiction of incorporation of Absolute and all of its material subsidiaries, each of which is wholly owned.



Absolute Software Corporation is the principal operating company. Absolute Software, Inc. is a limited distributor sales organization responsible for sales and distribution in the United States. Absolute Software EMEA Ltd. (United Kingdom) is a limited distributor sales organization responsible for sales, distribution and recovery in Europe, the Middle East and Africa ("EMEA"). Absolute Software (Singapore) Pte. Ltd. is a limited distributor sales organization responsible for sales, distribution, and recovery in the Asia Pacific Region. Absolute Software K.K. is a limited sales service organization for Japan. Absolute Technology GmbH (Germany) is responsible for certain research and development activities.

Absolute's fiscal year end occurs on June 30.

BUSINESS OF THE COMPANY

History and Development of the Business

Incorporated in 1993, the Company has been tracking computers in a SaaS model since 1994. In 1997, Absolute utilized its Computrace service to facilitate its first software-aided recovery of a stolen computer. Today, Absolute draws on its years of experience and the same core technology to help organizations overcome not only the security risks associated with their computers and the data they contain, but also their growing compliance and asset management challenges. Absolute's vision is to leverage its core technology and partner advantages to become the global leader in tracking, managing and protecting computers and the data stored on them.

Absolute has focused on growing its business through embedding its technology in the firmware of major leading personal computer ("PC") manufacturers ("OEMs"), expanding its distribution channels, enhancing its products, protecting and increasing its intellectual property portfolio (including its patents), expanding into global markets and increasing its market penetration in key U.S. markets. This organic growth strategy was supplemented with two technology acquisitions in fiscal 2010; the Company's purchase of the technology assets of LANrev (subsequently rebranded as "Absolute Manage") in December 2009 and the FailSafe® and Phoenix Freeze® technology in April 2010.

Generally, over 90% of Absolute's sales are generated in the U.S. market. Absolute intends to leverage its U.S. successes and distribution partners to expand globally, and has begun to focus on this initiative. It has sales offices in the U.K., the Netherlands, Singapore, and Japan and has developed partnerships in other parts of the world such as Latin America, Australia, and South Africa. In addition, Absolute provides global support pursuant to a global "white label" tracking and recovery service of a major OEM, which is part of the OEM's global expansion plans.

While Absolute's services were originally developed for laptop, desktop and server computers, the Company has recently expanded its product offering to include services for handheld "smart mobile" devices and for netbook computers. With the acquisition of Absolute Manage, the Company further expanded its product offering in fiscal 2010 to include a comprehensive, cross-platform endpoint and computer lifecycle management software solution. These efforts have been aimed at moving Absolute toward achieving its mission of being a world leader in end-point management and security solutions for computing devices.

With the addition of Absolute Manage during the year, we have expanded the potential for attaching our products to existing PC and Apple computer deployments. We believe the computer lifecycle configuration management market is large and mature. According to Gartner's most recent market assessment, sales of PC configuration lifecycle management tools totalled approximately $2.1 billion and accounted for approximately 80% of the total configuration market. We believe Absolute Manage is positioned to be competitive in this market with its cross-platform capabilities and the addition of Computrace persistence support, which represents a significant differentiator from our competitors in this space.

From a technology perspective, our PC OEM partners have adopted Absolute's Computrace technology as a standard and have embedded it in the firmware of their portable computers. This is an essential collaboration for Absolute, as embedding the software enhances its persistence (ability to survive unauthorized or un-intentional attempts to remove it). In turn, this gives Absolute's customers the confidence that its management and security solutions will be there whenever they need them. We believe this is a key value proposition and differentiator for Absolute.

Every year, our software ships embedded in the firmware of millions of computers worldwide. The following table lists the PC OEMs who are currently providing embedded support for Computrace:

Acer (since 2009)	GammaTech (since 2008)
ASUS (since 2009)	General Dynamics Itronix (since 2008)
Dell (since 2005)	Getac (since 2008)
Fujitsu US (since 2006) and EMEA (since 2009)	Lenovo (since 2005)
HP (since 2005)	Motion Computing (since 2006)
Intel (Classmate Computer) (since 2009)	Panasonic (since 2006)
	Toshiba (since 2006)

Absolute generates approximately 85% of its total sales through its PC OEM partners using various sales and marketing programs and its direct sales force to help identify and close sales opportunities. The OEMs are essentially resellers of Absolute's products to thousands of end customers, and accordingly management does not consider the Company to be dependent on any single OEM partner.

Absolute has seen strong growth in its subscriber base over the past few years. At June 30, 2010, the Company had 5.9 million computers under subscription, as compared to 4.1 million and 3.3 million at the end of fiscal 2009 and 2008, respectively.

While this subscriber growth reflects the cumulative result of the Company's growth strategies, one regulatory trend has assisted Absolute in attaining these growth rates. Over the past few years, 46 U.S. States have enacted privacy protection legislation that requires notification to individuals if their personal information has been possibly compromised. There is also other similar legislation affecting companies in other countries. Much of this legislation requires organizations to publicly notify third parties, including employees, customers and patients, whose personal information may have been compromised through a data security breach of any kind. As such, organizations and individuals have required solutions in order to protect their physical computing assets and their data. Absolute believes this is a key contributor to increases in demand for Absolute's computer security and management solutions, which are well suited to provide this type of protection.

Products

The following table provides a list of our commercial and consumer solutions. Our Computrace and LoJack® for Laptops products are delivered in a SaaS model. The customer simply deploys our client software, activates Computrace in the firmware, and can immediately begin utilising the software. There is no need for servers or complicated deployment schedules, and data is tracked through our servers. Our Absolute Manage product, which was acquired through our acquisition of LANrev in fiscal 2010, is currently deployed using a lightweight server deployment model where the server is located at on-premise, and accordingly, it is similar to Computrace in that it can be installed and operating quickly and without a significant implementation effort. A small number of Computrace customers, whose internal policies prohibit their computers from accessing third party servers, have purchased our Computrace product using an on-premise model.

Feature	Computrace	Absolute Manage	LoJack for Laptops (Consumer)
Persistence	●	●	●
Hardware inventory tracking	●	●	
Software inventory tracking	●	●	
Software license compliance	●	●	
Policy monitoring	●	●	
Vulnerability alerting	●		
Geofencing	●		
Geotracking	●		●
Power management		●	
Patch management		●	
Configuration management		●	
Computer imaging (Apple only)		●	
Persistent end user messaging	●		
Operating system level device lock	●		●
Intel AT device lock	●		●
Remote data delete	●		●
Investigative services	●		●
Theft recovery services	●		●
Operating Systems supported:			
Mac and PC support	●	●	●
Smartphone/book Devices supported			
Netbook devices	●	●	●
Blackberry devices	●		●
Windows Mobile devices	●		●
Symbian devices	●		●
Apple iOS4 devices		●	

In the coming year, we expect to continue adding new products and features, particularly in the areas of computer lifecycle management, data protection, and mobile device support on a global scale. Some of these are expected to be available as part of existing products and some as separately charged products and modules.

The Market Opportunity

Absolute has traditionally focused on its computer theft recovery, data protection and secure asset tracking products, and has developed distribution channels to address these markets, primarily within North America. Given the proliferation of laptop and mobile computing devices and increases in communications technologies, including mobile applications for critical business functions, Absolute believes that information technology ("IT") security is, and will continue to be, a major area of focus for companies of all sizes as well as for consumers. However, the Company also believes that this market is converging to one that requires a comprehensive endpoint management and security solution for mobile devices.

Absolute believes the addressable market for its solutions to be large and growing, with every computer sold worldwide representing a potential customer; both commercial and consumer. The adoption rate of portable computers continues to outpace that of traditional desktop computers – supporting sales of the Company's Computrace product suite.

A majority of the growth in computer shipments is expected to come from outside of North America over the next three years, and the Company has strategically established numerous global OEM relationships. This creates a significant international growth opportunity. As a result, Absolute is proactively investing in sales and marketing to ensure the Company can properly penetrate and support these markets in the coming years. Absolute believes this investment is prudent in light of its success to date and the compelling market need for its solutions.

In addition, Absolute believes there is a significant market opportunity to provide comprehensive software-based solutions to assist organizations in tracking the location of their computer assets within their organizations and managing the software and data on, and the operation of, those computers. This ability is known as endpoint management. Absolute's solutions can be used as a tool to assist in IT endpoint management, and to ensure compliance with corporate and external regulations and policies.

Absolute believes that there is a natural trend for the endpoint data protection and computer lifecycle management markets to merge, and has developed the products and channels to seek to capitalize on this trend. To this end, Absolute has been adding to its product suite with new solutions for asset management and data protection. The aim of these initiatives is to increase market adoption and revenue per subscription, while increasing leverage of its sales, distribution and technology platforms.

In support of its intentions to broaden its technology platform, Absolute made a notable acquisition during fiscal 2010. In December 2009, Absolute completed an acquisition of the Absolute Manage (previously known as LANrev) product suite. Absolute Manage is a world class endpoint management product, which can be deployed over networks encompassing both PC and Apple products. This product provides Absolute with an ideal complement to its existing IT asset management capabilities, and aligns with its long-term endpoint management and protection vision. This strategic acquisition is expected to be accretive to Absolute's overall business, as integration costs are expected to be minimal. In addition, the Company believes the timing of this acquisition will support the Company's sales into the expected upcoming PC refresh cycle as well as the anticipated opportunity to gain market share in the endpoint management space. Absolute's other technology acquisition, of the FailSafe and Phoenix Freeze technologies, gives us additional capacity to add features to our products.

The Company acquired the LANrev assets for approximately $12.8 million in cash and the issuance of 500,000 Common shares of the Company. Of this consideration, approximately $2.55 million of the cash and all of the 500,000 Common shares are deferred consideration, with each amount payable in equal one-third instalments annually on the first three anniversary dates of the acquisition.

The Company acquired the FailSafe® and Phoenix Freeze® assets for approximately US$6.9 million in cash.

Over time, Absolute's strategy is to expand distribution and sales capabilities with expanded OEM and reseller partnerships globally and with more products in order to ultimately increase sales growth and profitability.

Computrace Technology Platform

There are three main components to Absolute's Computrace technology infrastructure – the Network Operating Center ("NOC"), the Computrace Agent, and client applications.

The NOC is hosted by Absolute in one of three North American locations. It accepts encrypted communications from activated Computrace Agents, provides instructions, scripts and client applications to the client and manages the services. Customers are able to access their management consoles via a secure web portal in order to manage, monitor and track their computing devices.

The Computrace Agent is a stealthy and persistent software communication technology that occupies little space and operates in the background without end-user interruption. The Agent is cross-platform and is capable of being deployed on, and integrated into, the firmware of any computing device. The Agent is also only 27kb in size and is installed on the device hard drive once a customer activates the service.

Client applications include software developed by Absolute and other third-party software. The client applications include a variety of Absolute's powerful tools, including asset tracking and policy management applications, data delete capability, and forensic investigative tools. The applications are able to be deployed remotely via the NOC and Computrace Agent communication protocol. The required applications are delivered only when needed. For example, Absolute's forensic investigative tools are only deployed once a computer is reported stolen and the tools are only accessible by the Absolute Theft Recovery Team.

Absolute Manage Technology Platform

Our Absolute Manage product, which was acquired through our acquisition of LANrev in fiscal 2010, is currently deployed on-premise by our customers using a lightweight deployment model. An Absolute Manage deployment consists of a server, an administrator's console, and an agent which can be automatically installed on all managed machines. Unlike its competitors, Absolute Manage does not require extensive onsite infrastructure. The Absolute Manage product is completely cross-platform, meaning that the server, admin console and agents can be installed on either PC or MAC platforms.

Future Solutions

Absolute intends to continue to evaluate the market for software-based computer and handheld device management and security services and to identify those that have the best commercial value. Absolute's customers, distribution partners and market researchers will continue to play a key role in this process. Absolute expects to be able to deliver future services integrated within the Computrace Technology Platform either through in-house development, or through partnering with other technology providers.

The order and pace of introducing other solutions based on the Computrace Technology Platform will be a function of several factors. These factors include customer demand, development time required, and product introduction strategy.

Sales Contracts and Revenue Recognition

Absolute sells its solutions in a subscription, or Software as a Service ("SaaS"), model in which customers acquire subscriptions to Absolute's software based services for a limited license term. Once subscriptions are purchased, customers are able to deploy Absolute's Computrace software agent on their computers that then contacts Absolute's monitoring centers on an established schedule during the term to enable the services purchased. At June 30, 2010, Absolute had 5.9 million computers under subscription.

Absolute believes the SaaS business model is optimal for delivering security software solutions due to the use of a centralized production server that enables improved response to certain customer needs and ensures Absolute can consistently deliver a high degree of service to the customer. From a financial perspective, the SaaS business model, and the underlying subscription billing model, improves the visibility of revenue streams, and increases recurring cash flows. Absolute believes these factors will assist in maximizing profitability over time.

However, the accounting treatment for the subscription revenue model under Canadian GAAP results in a significant deferral of revenue and profitability generated from subscriptions, despite the cash flow it generates.

Subscriptions to Absolute's solutions are invoiced up-front for the full amount of the purchased term (which varies from one to five years) with non-refundable payment received on standard invoice terms. The customer pays up-front and in full on renewal of the contract, or on purchase of a new subscription. The full value invoiced is deferred on the balance sheet and recognized ratably over the contract term. Absolute refers to these subscriptions as Sales Contracts, which are not a standardized measure prescribed under Canadian GAAP. Sales Contracts are a component of deferred revenue and are calculated by adding revenue to the change in deferred revenue (see Note 10 of the Notes to the Consolidated Financial Statements).

As Sales Contracts have traditionally averaged around 28 months in term, there is a significant lag between revenue recognition and the timing of the sales contract and non-refundable cash inflows. In general, only 15-20% of Sales Contracts in any given fiscal year are also recognized as revenue in the same fiscal year. Conversely, a majority of Absolute's operating expenses in each fiscal year are incurred to generate the Sales Contracts for the period. As a result, Absolute focuses on Cash from Operating Activities as the key performance metric for the Company. Absolute believes this metric provides for the most meaningful evaluation of the business.

Sales and Marketing

Absolute's primary distribution strategy is to generate sales growth through computer OEMs. See "History and Development of the Business" in this AIF for a current list of OEM partners. In addition, Absolute's distribution channels include value added resellers, system integrators, distributors (Synnex, Navarre, etc.), encryption vendors and online and brick-and-mortar retailers.

Absolute supports these channels via direct sales, channel development, business development and marketing teams. These teams represent 138 people (2009 – 125), or approximately 40% of Absolute's total headcount of 350 employees on June 30, 2010. Management believes that such teams are essential for maximizing sales through Absolute's distribution channels. For fiscal 2011, Absolute plans to continue expanding the sales and marketing team and streamlining its activities in order to continue to execute on its sales growth targets.

These sales and marketing teams work closely with channel partners to identify and close opportunities in efforts to expand the Company's market penetration and opportunity pipeline. Their responsibilities include strategic technology and sale program development with PC OEM partners and other software vendors, logistics management, training, event coordination, advertising and special promotions, and day-to-day in-field sales cycle management with end customers as subject matter experts.

Sales and marketing programs cover customers of all sizes, from individual users through to large corporate and government organizations. As a result, Absolute's sales are diversified across a broad range of customers with 16% of fiscal 2010 sales coming from consumer customers and 84% from enterprise customers.

Absolute's largest PC OEM partner has generated approximately 53% of its total sales contracts over the last three years (48% in fiscal 2010). In order to further diversify its revenue stream, Absolute continues to pursue opportunities through all OEM channels. Other OEM channels have also begun to expand in the past three years, and are expected to provide increased channel diversification for future periods. For example, Absolute's second strongest PC OEM partner's share of total sales contracts increased from 16% in 2009 to 22% in 2010. Absolute generates approximately 85% of its total sales through its PC OEM partners using various sales and marketing programs and its direct sales force to help identify and close the sales opportunities.

Absolute's other channel diversification initiatives have included the development of relationships with leading market influencers, including infrastructure partners (for example, Intel®, Qualcomm® and Microsoft®), telecom and internet service providers, and other software vendors and value-added resellers to complement our PC OEM efforts.

Research and Development and Operations

Absolute recognizes that a capable product development team is essential for carrying out the business strategy of enhancing and expanding the capabilities of its core technology and services. Absolute has assembled a team of developers, engineers and other staff that it believes is capable of executing on the Company's product roadmap.

Absolute also has a team of operational staff responsible for customer and technical support, recovery and maintaining the Company's IT infrastructure. This team also plays a role in maintenance and development of Absolute's solutions.

Customers

Absolute has built a diversified customer base with approximately 5.9 million paid subscriptions including those from corporations, government agencies, educational institutions and individuals. Absolute serves customers in diverse industries, which helps mitigate the impact on Absolute of cyclical changes in any one industry or market. As such, Absolute does not have reliance on any single end customer.

The Company generates a majority of its sales contracts in North America, though it also has had an international presence through partners in South Africa, Europe, Latin America, Asia, and Australia. Sales outside North America currently account for approximately 6% of Absolute's total Sales Contracts. Absolute believes there is a significant growth opportunity in its international sales activities.

Intellectual Property Rights and Patents

Absolute relies on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect its proprietary information and technology. In addition, Absolute has received 15 issued patents for its technology and has 69 new patent applications in process. The patents cover a broad range of software and communication technologies. Computrace is a registered trademark of Absolute Software Corporation in Canada, the United States and the United Kingdom. Absolute pursues registration and protection of its trademarks primarily in the United States, although it does seek protection elsewhere in selected key markets.

In addition, Absolute licenses the use of the name LoJack from LoJack Corp. under a Branding Agreement.

As part of its confidentiality procedures, Absolute has a policy of entering into non-disclosure and confidentiality agreements with its directors, employees, consultants, and corporate alliance members. Despite these efforts to protect Absolute's proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of its products or technology that Absolute considers proprietary and third parties may attempt to develop similar technology independently. Increasingly global coverage is expected to be sought with the global expansion of its business. Effective protection of intellectual property rights may be unavailable or limited in some countries. The laws of some countries do not protect proprietary rights to the same extent as in the United States and Canada. There can be no assurance that protection of Absolute's proprietary rights will be adequate or that its competitors will not independently develop similar technology.

In calendar 2005, Absolute began licensing its patent portfolio to ensure there is no unauthorized use of its technology as part of its intellectual property protection policy. Several competitors have taken licenses to Absolute's patent portfolio, and are paying license fees to Absolute for this right. Absolute has also initiated certain legal actions to protect its patents and continues to assert its rights against other recent entrants into the field that appear to be infringing upon its patents. As with many companies in the technology field, enforcing patents and other intellectual property rights has become a part of the normal course of Absolute's business, and management believes that appropriate enforcement efforts are a prudent means of strengthening its position in order to lessen or prevent future infringement by third parties, as well as creating an additional incidental revenue stream in the process.

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 matters:

- 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.
- We also have a patent infringement action pending in the United States District Court for the Southern District of New York against Brigadoon Software, Inc., Case No. 05 CV 3273. The case was stayed pending the Texas court's claim construction ruling in the Stealth litigation referenced above. Now that the Texas court has issued the claim construction ruling, the stay will be lifted and the New York court will resume the case in the coming months. A status conference has been scheduled for September 28, 2010.
- We have a patent infringement action pending in the United States District Court for the Western District of Texas against World Computer Security Corporation and Front Door Software Corporation, Case No. 1:09 CV 00142. In response to our complaint, the defendants filed a motion to dismiss for lack of jurisdiction or alternatively to transfer venue, which the Court denied. The claim construction hearing is currently scheduled for September 27, 2010.

The Company's management believes Absolute 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.

As Absolute continues to innovate beyond its current product offerings, Absolute expects to continue to expand its portfolio of intellectual property (including patents) as it has done in the past. Absolute expects further licensing and enforcement activities to occur as a result of expanding this portfolio, as it sees these activities as assisting in securing industry leadership position for Absolute.

Competition

Since inception, Absolute has had few direct competitors in the computer theft recovery and anti-theft space. Most competitors have been small operators with limited resources to widely commercialize their offerings. Based on Absolute's proprietary technology and patent protection, several of those competitors have taken licenses to its patents and now pay it royalties on their sales, or have ceased offering the potentially infringing offerings, or have abandoned their own applications and become resellers or referral partners of Absolute's solutions. In addition, during fiscal 2010, we purchased the technology assets for a product called FailSafe.

While Absolute is the creator, innovator and leader in the theft recovery market category, the Company believes the lack of direct competition has also kept general awareness and adoption rates at low levels. In the past year, several direct competitors have entered the market, some of whom have better resources and market positioning than prior competitors, thus raising the level of competition. This has increased pricing pressure and has required increased investments in certain areas to defend Absolute's leadership position. However, management believes this has also helped to increase awareness of the category and in turn, has increased the total addressable market for its solutions.

While competition has emerged, competitors have yet to capture a material share of the market and Absolute believes its competitive position remains solid. Absolute believes that its PC OEM partnerships, embedded position, proven track record, subscriber base, patent portfolio, growing global footprint and talented theft recovery and customer service teams combine to provide it with competitive advantages. These advantages have helped to build its technology leadership position, and it believes they will enable Absolute to stay in this leadership role as the category grows in its market potential.

As we have expanded into the broader computer lifecycle management and security market, which is a large and more mature market, we have seen an increased level of established competition. In the computer lifecycle management market, we compete with market leading products such as Altiris (from Symantec), LANdesk, Kace (recently acquired by Dell) and BigFix (recently acquired by IBM), among others. In the data and device security market, we primarily compete with data security companies that offer leading encryption solutions such as Safeboot (from McAfee), Utimaco (from Sophos), Checkpoint and Symantec (previously Guardian Edge and PGP), among others.

Absolute relies on a number of strategies and advantages to mitigate the impact of competition in its core business. Absolute considers its competitive advantages to include its:

- 5.9 million subscriber base, technology, leader and first to market position;
- Persistent technology and embedded firmware support from the world's leading PC OEMs;
- Ability to support multiple platforms and devices including PCs, Apple devices, netbooks and mobile devices (BlackBerry, Windows and Symbian);
- Patent portfolio directly related to post-theft recovery and asset tracking capabilities.
- Proven recovery success and forensic investigations theft recovery team as a key differentiator as no other company in the market has established such a capability;
- Product designs that provide maximum security with minimal cost and overhead implications;
- Sales and marketing teams and their established sales experience and relationships with the world's leading PC OEMs and directly with end customers.

We believe that our persistent, cloud-based solutions, our unique anti-theft services and our cross-platform and device capabilities enable us to both complement and effectively compete with these leading offerings and vendors.

Facilities

Absolute maintains the following leases of office space:

Location	Square Feet under lease	Expiry Date
Vancouver, Canada	26,000	November 2013
Austin, U.S.	7,500	September 2014
London, U.K.	1,200	November 2010
Amsterdam, the Netherlands	1,333	June 2011

In addition to the above leases, Absolute also maintains office space Tokyo, Japan on a month to month basis.

Employees

As at June 30, 2010, Absolute had a total of 355 employees, excluding independent contractors and temporary employees. Each employee executes a confidentiality and non-disclosure agreement as part of the terms of their employment. None of Absolute's employees are represented by a labour union, nor are they subject to a collective bargaining agreement. Absolute has never experienced a work stoppage, and management believes its employee relations to be favourable.

At June 30, 2010, our 350 employees were comprised as follows:

Function	Number of employees
Monitoring and Theft Recovery	98
Sales and Marketing	138
Research and Development	95
General and Administration	19

Risk Factors

The Company is selling and developing products and services for new and emerging markets and as a result faces a number of risks and uncertainties. These risks and uncertainties are described in the Fiscal 2010 Management Discussion and Analysis filed at www.absolute.com and at www.sedar.com, and are incorporated herein by reference.

DIVIDEND POLICY

Absolute does not currently pay dividends on its Common shares. The actual timing, payment and amount of dividends paid by the Company in the Common shares, if any, will be determined by the Board of Directors from time to time, subject to applicable laws and based upon the cash flow, results of operations and financial condition of Absolute, the need for funds to finance ongoing operations and such other business considerations as the Board of Directors considers relevant.

CAPITAL STRUCTURE

The authorized capital of the Company consists of 100,000,000 Common shares and 20,000,000 Preferred shares. As at June 30, 2010, 46,829,090 Common shares and no Preferred shares were issued and outstanding.

The holders of Common shares are entitled to one vote for each share held on all matters to be voted on by such shareholders and, subject to any rights and priorities of the holders of Preferred shares, are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available for such purposes. In the event of the dissolution, liquidation, winding-up or other distribution of the assets of Absolute, such holders are entitled to receive on a pro-rata basis all of the assets of Absolute remaining after payment of all of Absolute's liabilities, subject to the rights of holders of Preferred shares. The Common shares carry no pre-emptive or conversion rights.

The Preferred shares are issuable in series and the Board of Directors is entitled to determine the designation, preferences, rights, conditions, restrictions, limitations and prohibitions to be attached to each series of such shares. The Preferred shares are entitled to priority over the Common shares with respect to the payment of dividends and distributions in the event of the dissolution, liquidation or winding-up of Absolute. The holders of Preferred shares are entitled to receive notice of any meeting of the shareholders of Absolute and to attend and vote thereat, except as otherwise provided in the rights and restrictions attached to the shares by the Board.

Absolute has an Employee Stock Option Plan (the "Option Plan") in order to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. The Option Plan is a rolling plan whereby the number of options available for grant thereunder is limited, since December 2009, at 12% of number of Common shares issued and outstanding. At June 30, 2010, the maximum number of Common shares available under the Option Plan was 5,619,490, of which 4,707,925 were outstanding and 4,127,127 were exercisable.

Absolute also maintains 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. During 2010, 231,188 Common shares (2009 – 177,097 Common shares) were issued from treasury under the Purchase Plan at a weighted average price of $3.40 (2009 - $4.43) per share.

Further information with respect to the Option Plan and the Purchase Plan is contained in the Information Circular distributed in connection with the Company's Annual General Meeting held on December 17, 2009, which is incorporated herein by reference.

MARKET FOR SECURITIES

The Company's Common shares are listed and posted for trading on the Toronto Stock Exchange (TSX) under the ticker symbol ABT. A total of 16,172,500 Common shares were traded during the period July 1, 2009 to June 30, 2010, at daily closing prices ranging from $3.82 per share to $6.95 per share. This is down from 47,249,500 Common shares traded in the prior fiscal year when closing prices ranged from $3.09 to $13.30 per share.

The monthly share prices and share trading data for fiscal 2010 are as follows:

Month	High	Low	Volume
July 2009	$ 5.98	$ 5.03	1,101,000
August 2009	6.49	5.29	1,948,200
September 2009	5.90	5.20	1,572,200
October 2009	5.72	5.11	1,334,900
November 2009	5.86	5.04	1,074,300
December 2009	5.40	4.93	1,723,100
January 2010	6.95	5.19	2,759,100
February 2010	6.35	5.66	869,600
March 2010	6.52	5.50	679,900
April 2010	5.77	4.10	1,839,500
May 2010	4.70	3.82	799,900
June 2010	4.46	4.00	470,800

On November 6, 2009, the Company received approval from the TSX for a Normal Course Issuer Bid that enables the Company to purchase and cancel up to 3,337,617 of its Common shares. The Bid allows for the purchase on a daily basis of up to 20,475 shares per day until November 5, 2010, except where purchases are made in accordance with "block purchases" exemptions under applicable TSX policies. The Company received approval for a similar Normal Course Issuer Bid (together, the "Bids") on November 6, 2008.

Under the Bids, during fiscal 2010 the Company repurchased 238,000 Common shares for a total cost of $1,002,138 (2009 – 3,257,000 Common shares at a cost of $10,637,373).

DIRECTORS AND OFFICERS

The Directors of the Company are John Livingston (Chairman and Chief Executive Officer), Phil Gardner (Chief Technology Officer) and three outside directors; J. Ian Giffen, Terry Libin and Ian Reid. The Company has three committees of the board comprised only of the three outside directors. The committees are the Audit Committee, the Compensation Committee and the Strategic Planning Committee. The term of office for all directors of Absolute expires at the fiscal 2010 Annual General Meeting.

The outside Directors of the Company are:

J. Ian Giffen. Mr. Giffen joined Absolute as a Director in December 2008 and is also Chairman of the Audit Committee. Ian is a resident of Toronto, Ontario, and his principal occupation is as an advisor and/or director to technology companies and investment funds. His current director positions include MKS Inc., RuggedCom Inc., and The Descartes Systems Group Inc. (Chairman). Since 1996, Ian has advised a number of private venture investment funds and has served on the boards of a number of public and private companies including Macromedia, Inc. (from 1997 - 2005 until it was sold to Adobe Systems Inc.), Certicom Inc, DPS Inc., MGI Software Inc., Delano Technology Inc., Financial Models Inc., 724 solutions Inc., Sierra Systems Group Inc., Open Text Corporation Inc., Algorithmics Inc. and Changepoint Inc. Ian is a Chartered Accountant with a designation in Corporate Finance.

Terry Libin. Mr. Libin joined Absolute as a director in January 1996 and is also Chairman of the Strategic Committee. Mr. Libin is a resident of Calgary, Alberta, and during the past five years, his principal occupation has been as President of Highfield Development Ltd. (a privately owned real estate development company).

Ian Reid. Mr. Reid joined Absolute as a director in January 2000, and is also Chairman of the Compensation Committee. Mr. Reid is a resident of Vancouver, BC. He was a founder of Sierra Systems Group and its Chief Financial Officer until 1999. During the past five years, his principal occupation has been as President of Rastus Holdings Ltd. (a business holding company). Mr. Reid returned to Sierra Systems Group Inc. as a director in 2002 and as Interim Chief Executive Officer from 2004 to 2005. Mr. Reid was also a director and Chairman of the Audit and Mergers and Acquisitions Committees of Gemcom Software International Inc. until its sale in July 2008.

The Senior Officers of the Company are:

John Livingston, Chairman of the Board, President and Chief Executive Officer. Mr. Livingston, a Vancouver, BC resident, has served as Absolute's Chairman, President and Chief Executive Officer since October 1995. Prior to joining Absolute, he was a faculty member of the School of Business at the British Columbia Institute of Technology. In addition, Mr. Livingston was the founder and manager of a computerized reservation service and a record production company.

Phil Gardner, Director and Chief Technology Officer. Mr. Gardner, a Woodberry, Minnesota resident, joined Absolute as Chief Technology Officer in 1997. He was elected to the Board of Directors in December, 2007. Before joining Absolute, he was a senior software architect at Quarterdeck Corporation where he was responsible for developing its flagship product QEMM, a software application to manage computer memory. He also assisted in the co-ordination of

Quarterdeck's in-house technical and field support, quality assurance and software development.

Errol Olsen, Chief Financial Officer. Mr. Olsen, a Vancouver, BC resident, joined Absolute as Chief Financial Officer in July 2010. Mr. Olsen has more than 18 years of corporate finance and accounting experience, including over 12 years in the technology industry. Mr. Olsen has supervised the finances, finance operations, and process improvements of rapidly growing companies, has participated in mergers and acquisitions, debt and equity financings, and has managed public company reporting. From 2008 to 2010, Mr. Olsen served as Chief Financial Officer at Inetco Systems and from 2006 to 2008 previously held the same role at Explorer Software. Errol's extensive technology experience also includes senior finance roles at Pivotal Corporation and Infowave Software. Prior to leaving public practice, Errol was a manager in the audit and advisory services group at KPMG LLP, where he worked with a portfolio of private and public companies.

Rob Chase, Chief Operating Officer. Mr. Chase, a Vancouver, BC resident, joined Absolute in July 2000 as Director of Finance and Corporate Controller, and was promoted to Vice President Finance & Corporate Controller in April 2002, Vice President, Finance (acting Chief Financial Officer) in April 2003, Chief Financial Officer on July 1, 2004, and Chief Operating Officer on July 12, 2010. Prior to joining Absolute, Mr. Chase obtained his Chartered Accountant designation in 1994 while working with Deloitte & Touche, and worked with Arthur Andersen and Towers Perrin prior to joining Absolute.

John Sarantakes, Vice President, North American Sales. Mr. Sarantakes, a resident of Austin, Texas, joined Absolute in April 2008 and is responsible for leadership and strategic direction of the company's North American inside and field-based sales organization. Mr. Sarantakes brings 15 years experience leading sales teams in the high-tech industry. Most recently he was Area Sales Director at Dell where he was responsible for management of a $1.4 billion business.

Mark Grace, Vice President, Global Consumer, Asia Pacific, and Latin America. Mr. Grace, an Austin, Texas resident, leads the go-to-market strategy for Absolute's Computrace LoJack for Laptops line of consumer products and is responsible for sales, business development and the partner ecosystem across the product line. Mr. Grace joined Absolute in March 2008. A 20-year veteran of the consumer high-tech industry, Mr. Grace most recently spent 10 years with Dell where he held executive leadership positions including heading up the Dell Direct Retail division. Prior to joining Dell, Mr. Grace led several initiatives for Tandy Corporation.

Gareth Mason, Senior Vice President, Services Delivery. Mr. Mason, a Vancouver, BC resident, joined Absolute in June 2006 and is responsible for the customer-related and operational aspects of its business. In the three years prior to joining Absolute, Mr. Mason held similar positions at Pivotal Corporation and he has also gained extensive international experience running software operations in North America, Europe and Asia.

Abigail Maines, Vice President, Channel Strategy. Ms. Maines, an Austin, Texas resident, joined Absolute in February 2009 and is responsible for global channel strategy. Abigail brings more than 10 years of channel management and business development experience to her role. In the five years prior to joining Absolute, Ms. Maines was on the executive team at HiWired, a remote services organization, Dell in their Managed Services division and at Installs, Inc. as Director of Business Development.

Stephen Midgley, Vice President, Global Marketing. Mr. Midgley, a Vancouver, BC resident, joined Absolute in November 2007. Mr. Midgley oversees all aspects of marketing at Absolute Software including marketing communications, channel marketing, product marketing and the company's presence on the Web. From 2005 until 2007 Mr. Midgley served as Senior Director, Global Web Marketing and Operations at business intelligence vendor Business Objects and as Director, Global Web Marketing from 2003 to 2005. In these roles, Mr. Midgley led the worldwide online branding effort and developed the Internet as a primary marketing channel. His diverse marketing career also includes senior marketing positions with Inovera Solutions and Citizens Bank of Canada.

David Everitt, General Manager-Europe, Middle East & Africa. Mr. Everitt, a London, England resident, joined the Company as General Manager EMEA in December 2009 and is responsible for leadership, strategic development and business partner relations pertaining to the Company's business in the EMEA region. He brings over 25 years of experience in developing business in both hardware and software relating to the high-technology international computing and communications market. Before joining Absolute, David spent more than 20 years at AMD, during which his duties spanned many areas including hardware design, software engineering and business and market development in embedded and traditional computing segments.

Matthew Desharnais, Vice President, Legal and Corporate Secretary. Mr. Desharnais, a Vancouver, BC resident, joined the Company as VP, Legal in January 2010 and is responsible for the Company's global legal management and administration. Mr. Desharnais has many years of international corporate, securities, M&A and licensing transactional experience and has represented numerous public high technology companies in British Columbia and California. In the five years prior to joining the Company, Mr. Desharnais worked in Silicon Valley as a partner at the law firm of Hayden Bergman & Rooney P.C. and as a Senior Associate at the law firm of Wilson Sonsini Goodrich & Rosati, P.C.

OWNERSHIP OF SECURITIES

As of the date hereof, according to the records and knowledge of the Company, I.G. Investment Management, Ltd. owned approximately 7,202,150 Common shares representing 15% of the outstanding Common shares. There are no other persons or corporations that beneficially own, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to all outstanding shares of Absolute. The directors and executive officers of the Company collectively owned 4,629,969 Common shares of Absolute, representing approximately 10% of the outstanding Common shares as at June 30, 2010.

LEGAL PROCEEDINGS

For a description of patent-related legal proceedings, see the Intellectual Property Rights and Patents Section of this AIF.

By virtue of 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.

TRANSFER AGENT AND REGISTRAR

The transfer agent for Absolute's Common shares is CIBC Mellon Trust Company.

INTEREST OF EXPERTS

Names of Experts

The financial statements of the Company for the year ended June 30, 2010 have been audited by Deloitte & Touche LLP.

Interests of Experts

Deloitte & Touche LLP are the external auditors for the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of British Columbia.

AUDIT COMMITTEE DISCLOSURE

National Instrument 52-110 of the Canadian Securities Administrators requires Absolute to disclose annually in AIF certain information concerning the constitution of its audit committee and its relationship with its independent auditor. The information required is as follows:

The Audit Committee's Charter

The audit committee has a charter as attached in Schedule "A". The text of the audit committee's charter is also available from the Chief Financial Officer of Absolute at Suite 1600 – 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1K8, telephone no. (604) 730-9851.

Composition of the Audit Committee

The members of the audit committee are J. Ian Giffen (Chairman), Terry Libin and Ian Reid. Each member of the audit committee is independent and financially literate.

A member of the audit committee is independent if the member has no direct or indirect material relationship with the Company. A material relationship includes a relationship which could, in the view of the Company's board of directors, reasonably interfere with the exercise of a member's independent judgement.

A member of the audit committee is considered financially literate if he or she has the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company.

See "Directors and Officers" in this AIF for a description of the relevant education and experience of each audit committee member that is relevant to the performance of his responsibilities as an audit committee member.

Audit Committee Oversight

During the most recently completed financial year, all recommendations of the audit committee with respect to financial reporting, and to nomination or compensation of the Company's external auditor were adopted by the board.

Pre-Approval Policies and Procedures

For non-audit services during fiscal 2010, the audit committee has pre-approved the chairman of the committee to authorize such services to a maximum of $15,000. The audit committee must approve any engagements for non-audit services beyond this amount.

External Auditor Service Fees

Fees billed or to be billed by the Company's external auditor for the fiscal years ended June 30, 2010 and 2009 are expected to be as follows:

	Amount billed during	
	Fiscal 2010	Fiscal 2009
Audit Fees[(1)]	$ 154,082	$ 133,332
Audit-Related Fees[(2)]	33,295	1,985
Tax Fees[(3)]	64,400	35,885
Total fees	$ 251,777	$ 171,202

(1) "Audit Fees" include fees necessary to perform the annual audit of the Company's consolidated financial statements. Audit Fees include fees for review of tax provisions and for accounting consultations on matters reflected in the financial statements. Audit fees also include audit or other attest services required by legislation or regulation, such as comfort letters, consents, reviews of security filings and statutory audits and quarterly reviews.

(2) "Audit-Related Fees" include services that are traditionally performed by the auditor. These audit-related services include employee benefit audits, due diligence assistance, accounting consultations on proposed transactions, internal control reviews and audit or attest services not required by legislation or regulation.

(3) "Tax Fees" include fees for all tax services other than those included in "Audit fees" and "Audit-Related Fees". This category includes fees for tax compliance, tax planning and tax advice. Tax planning and tax advice includes assistance with tax audits and appeals, tax advice related to mergers and acquisitions, and requests for rulings or technical advice from tax authorities.

ADDITIONAL INFORMATION

Additional information, including information with respect to the directors and officers of the Company and their remuneration and indebtedness, options to purchase securities, interests in material transactions and securities authorized for issuance under share option and employee share purchase plans, where applicable, will be contained in the Company's information circular for its annual meeting to be held on or about December 14, 2010. Additional financial information, including information with respect to risk factors, is provided in the Company's audited consolidated financial statements and management discussion and analysis for the years ended June 30, 2010 and 2009 and is incorporated by reference. Copies of the comparative financial statements and management discussion and analysis are also available online at www.absolute.com and www.sedar.com. The information circular for fiscal 2010 will be filed on SEDAR once completed, and the fiscal 2009 information circular is currently available.

The company's consolidated financial statements for the year ended June 30, 2010 were audited by Deloitte & Touche LLP.

SCHEDULE “A”

AUDIT COMMITTEE CHARTER

MANDATE

The purpose of the Audit Committee is to assist the Board of Directors' oversight of (a) the integrity of the Company's financial statements, (b) the Company's compliance with legal and regulatory requirements, (c) the independent auditor's qualifications and independence and (d) the performance of the Company's audit. The Audit Committee will also supervise the preparation of all reports, including reports to shareholders, required under applicable law.

In performing its duties, the Audit Committee will maintain effective working relationships with the Board of Directors, management, and the external auditors. To effectively perform his or her role, each Audit Committee member will obtain an understanding of the detailed responsibilities of Audit Committee membership as well as the Company’s business, operations and risks.

MEMBERSHIP

The Audit Committee will consist of at least three directors appointed by the Board. The membership of the Audit Committee will be guided by the applicable law and corporate governance recommendations of Multilateral Instrument 52 – 110 and any successors (MI).

Independence

No director who is an employee of the Company or any of its subsidiaries, affiliates or auditors may serve on the Audit Committee until three years after the termination of his or her employment. All members of the Audit Committee must satisfy the definition of independence contained in the MI.

Expertise of Audit Committee Members

Each member of the Audit Committee must be, or will become within a reasonable period of time after appointment, financially literate. At least one member of the Audit Committee will have accounting or related financial management expertise. The Board of Directors will interpret the qualifications of financial literacy and financial management expertise in its business judgment within the guidance provided by the MI and will determine whether a director meets these qualifications.

MEETINGS

The Audit Committee will meet in accordance with a schedule established each year by the Board, and at other times as determined by the Audit Committee. The Audit Committee will meet at least quarterly with the Company’s management and with internal auditors (or those personnel responsible for the internal audit) and, at least annually, with the external auditor in separate executive sessions. A quorum of the Audit Committee is the attendance in person or by teleconference of at least two thirds of the members of the Audit Committee; where two thirds does not result in a whole number, the resulting number shall be rounded up to the next whole number.

ROLES AND RESPONSIBILITIES

Internal Control

- Oversee, in consultation with the external auditors, the adequacy and effectiveness of management's system of internal controls over the accounting and financial reporting system within the Company;

- Ensure that the external auditors keep the Audit Committee informed about fraud, illegal acts, deficiencies in internal control and certain other matters;

- Review and approve any related party transactions;

- Review, as and when appropriate, whether management is setting the appropriate tone through its communication to company employees on the importance of internal control and ensuring that all individuals possess an understanding of their roles and responsibilities;

- Consider the extent to which internal (if any) and external auditors should review computer systems and applications, the security of such systems and applications, and the contingency plan for processing financial information in the event of a systems breakdown; and

- Gain an understanding of the extent which internal control recommendations made by external auditors have been implemented by management.

Financial Reporting

General

- Review significant accounting and reporting issues, with particular note regarding the process for identifying the principal risks to accuracy of financial reporting and any changes of a material nature to the characterization of entries and accounts;

- Ensure that the Audit Committee reviews and, where appropriate, recommends approval to the Board of all press releases relating to financial information such as financial statements and the Management Discussion and Analysis, projections or material otherwise involving information derived from the financial reports or the analytic reporting thereof, as well as financial information and guidance provided to analysts and rating agencies;

- Review with the external auditors their proposed audit adjustments and any audit problems or difficulties and management's response thereto;

- Review significant accounting and reporting issues, including recent professional and regulatory pronouncements and critical accounting policies, and understand their impact on the financial statements;

- Ask management and the external auditors about significant risks and exposures and the plans to minimize such risks, and

- Ensure that disclosure in the Management Discussion & Analysis is balanced and fully responsive.

Annual and Interim Financial Statements

- Review the financial statements and determine whether they are complete and consistent with the information known to the Audit Committee members, and assess whether the financial statements reflect appropriate accounting principles;

- Meet with management and the external auditors to review the annual financial statements and the results of the audit;

- Meet with management and, if necessary, the external auditors to review the interim financial statements;

- Review the annual and interim financial statements as the case may be and make recommendations thereon to the Board;

- Pay particular attention to complex and/or unusual transactions such as restructuring charges and derivative disclosures;

- Focus on judgmental areas such as those involving valuation of assets and liabilities, including, for example, the accounting for and disclosure of loan losses, warranty, professional liability, litigation reserves, and other commitments and contingencies;

- Periodically obtain explanations from management on whether:

    - Actual financial results for a period varied significantly from budgeted or projected results;

    - Changes in financial ratios and relationships in the financial statements are consistent with changes in the Company's operations and financing practices;

    - Generally accepted accounting principles have been consistently applied;

    - There are any actual or proposed changes in accounting or financial reporting practices;

    - There are any significant or unusual events or transactions;

    - The Company's financial and operating controls are operating effectively;

    - The Company has compiled with the terms of loan agreements or security indentures;

- Understand how management develops and summarizes quarterly financial information and the extent to which the external auditors review quarterly financial information; and

- Ensure appropriate review of accounting practices that relate to transfer pricing.

External Auditors

- Review the external auditor's proposed audit scope and approach;

- Oversee the work of the external auditors;

- Review with the external auditor the quality, not just the acceptability, of the Company's accounting principles as applied to critical accounting policies and practices, alternative treatments of financial information that have been discussed with management and any other material communications with management;

- Review and confirm the independence of the external auditors, including a review of the cost and nature of all non-audit services provided, all relationships between the Company and themselves and the auditors' assertion of their independence in accordance with professional standards;

- Establish hiring policies for partners and employees or former partners and employees of the present and any former external auditors;

- Retain and terminate the external auditor (subject to any applicable Board or shareholder approvals) and recommend to the Board the compensation for the external auditors;

- Pre-approve all non- audit services provided by the external auditor in excess of 5% of the annual billings by the auditor to the Company. Pre-approval requirements may be met where the Committee establishes detail policies as to each service to be pre-approved and the Committee is informed of such services at its next meeting. The Audit Committee may delegate this authority to one of the committee members, but not to management, provided the non-audit services in question are presented to the Committee at its next meeting;

- Have the external auditor provide the Audit Committee with a summary of any investigation by governmental or professional authorities within the preceding five years, respecting any audits of the Company carried out by the external auditor, and any steps taken to deal with any issues raised by the inquiry or investigation; and

- If conducted, have the external auditor advise the Audit Committee on the results of any quality-control review or peer review of the audit of the Company.

Other Responsibilities

- Ensure that significant findings and recommendations made by management or the external auditors are received and discussed on a timely basis;

- If necessary, review the policies and procedures in effect for considering officers' expenses and perquisites;

- Perform other oversight functions as requested by the full Board, such as appropriateness of staff and systems in the financial department;

- Establish procedures for the receipt, retention and treatment of complaints and the confidential anonymous submission by employees of concerns about accounting, internal accounting controls or audit matters;

- Meet periodically with management to review the Company's major financial risk exposures and to review relevant insurance coverage; and

- Review and update this Charter, subject to the approval of the Board.

Reporting Responsibilities

- Regularly update the Board of Directors about Audit Committee activities and make appropriate recommendations; and

- Maintain minutes of all meetings.

Compliance with Laws and Regulations

- Periodically obtain updates from management regarding material compliance with applicable laws and regulations;

- Review, with the Company's counsel, any legal matters that could have a significant impact on the Company's financial statement;

- Be satisfied that all regulatory compliance matters have been considered in the preparation of the financial statements; and

- Review the findings of any examinations by regulatory agencies such as the British Columbia Securities Commission.

RESOURCES AND AUTHORITY OF THE AUDIT COMMITTEE

The Audit Committee has the authority, and will be provided with all resources that it reasonably requires, to discharge its responsibilities. The Audit Committee may, as appropriate, engage at the expense of the Company outside auditors, independent legal counsel, and other experts or consultants for compensation that the Audit Committee deems appropriate. The Audit Committee may communicate directly with the internal or external auditors.