

Fiscal Year 2002

1 First Quarterly Report

(Ended September 30, 2001)

Highlights:

- Sales contracts of \$1.09 million for the first quarter of fiscal 2002 ("Q1'02") were 25% lower than the same quarter last year, and 39% lower than the immediately preceding quarter. Sales contracts represent service contracts signed in the period for which service was enabled in the period.
- Operating revenues for Q1'02 were \$1.21 million, an increase of 67% from the same quarter last year and up 5% from the immediately preceding quarter. Operating revenues represent the recognized portion of sales contracts (monitoring revenue) and licensing and other trade revenue for financial statement purposes.
- Deferred revenue on the balance sheet has declined from \$6.21 million at June 30, 2001 to \$6.18 million at September 30, 2001.
- The Company reported a net loss in Q1'02 of \$1.18 million (\$0.06 per share), a 2% decrease compared to the net loss of \$1.20 million (\$0.06 per share) for the same quarter of the previous year. The net loss for Q1'02 represents a 12% decline from the \$1.34 million loss reported for the fourth quarter of fiscal 2001.
- Cash used for operating activities was \$1.16 million for Q1'02 versus \$1.0 million for the immediately preceding quarter and \$0.98 million for the first quarter of fiscal 2001.
- The Company maintains a strong balance sheet at September 30, 2001 with cash and short-term investments of \$15.48 million (\$0.77 per share) and no long-term debt.
- Dell Computer Corporation continued to be one of the Company's most productive resellers, accounting for 30% of sales contracts during the quarter (25% for Q4'01 and 37% for Q1'01).
- On October 1, 2001, Absolute launched AbsoluteTrack, a managed service for secure asset tracking and inventory management.
- IBM began to resell the ComputracePlus service to its small to medium sized business customer base beginning in September 2001.
- During the quarter, Absolute was awarded another U.S. software patent titled "Apparatus and Method for Monitoring Electronic Devices Via A Global Network", acknowledging the Company's innovation, technology and expertise.
- During the quarter, the Company purchased 112,000 common shares under its normal course issuer bid at an average price of \$0.50 per share.
- The ComputracePlus service was launched in the international markets of the United Kingdom and South Africa during the quarter.

Financial Highlights

Consolidated Operational Data (000s)

	For the Three Months Ended September 30,		
	2001	2000	Change
Sales Contracts	\$ 1,093	\$ 1,458	-25.0%
Monitoring Revenue	\$ 1,210	\$ 725	66.8%
Loss for the period	\$ 1,178	\$ 1,205	-2.2%
- Per share	\$ 0.06	\$ 0.06	-2.2%
Cash used for operating activities	\$ 1,162	\$ 982	18.3%
- Per share	\$ (0.06)	\$ (0.05)	18.3%
Weighted average shares outstanding	20,286	20,295	0.0%

Consolidated Balance Sheet Data (000s)

	September	June	Change
	2001	2001	
Cash and short-term investments	\$ 15,485	\$ 16,778	-7.7%
Deferred revenue	\$ 6,179	\$ 6,215	-0.6%
Working Capital	\$ 12,643	\$ 14,058	-10.1%
Liquidity ratio	4.0 : 1	4.2 : 1	N/A

Sales Contracts:

Sales contracts of \$1.09 million for Q1'02 fell short of management's expectations, decreasing 39% when compared to the immediately preceding quarter and 25% when compared to the same quarter in the prior year. Sales contracts for July and August 2001 were at levels consistent to prior years; however, the tragic events of September 11, 2001 appear to have had at least a short-term impact on results for Q1'02, particularly since orders are normally expected to accelerate in the final two weeks of each quarter. This situation was exacerbated by the current economic slowdown.

While the Company expects to recover to a higher level of quarterly sales contracts, the timing and level of this return is difficult to predict in light of current economic conditions. The Company is optimistic that the launch of the AbsoluteTrack service in October 2001 will contribute positively to sales results in the coming quarters and when combined with the expansion of the sales force and increased market awareness, positive growth is expected for fiscal 2002 in spite of the current economic downturn. As previously announced, the Company has revised estimated annual sales contract growth of 35% to 45% for fiscal 2002 downward to 5% to 15%.

The Company's partnership with Dell accounted for 30% of sales contracts this quarter, up from 25% in the fourth quarter of fiscal 2001. Direct sales contributed 47% to sales contracts this quarter, down from 53% in the preceding quarter, while other resellers remained consistent at 23%.

Development and Operations:

During Q1'02, the development team was focused on completing the AbsoluteTrack service for the October 1 launch. In addition, resources were also deployed to complete the development, training and installation of an international system to support the Company's partners in South Africa and the UK. The team was successful in completing these initiatives and both the AbsoluteTrack service and international operations are currently up and running.

The Company repositioned its flagship Computrace service as ComputracePlus during the quarter in conjunction with the release of the AbsoluteTrack service. The ComputracePlus PC tracking and loss control service has been broadened to include a lease management component. This is still primarily a computer tracking and recovery service; however, the addition of lease management along with the basic level of asset tracking functionality provides customers with a more robust loss control service. Customers requiring more comprehensive asset tracking functionality for daily inventory management functions, excluding theft recovery services, will find the AbsoluteTrack service suitable for their needs. With the AbsoluteTrack service, the Company has extended its technology platform to deliver services in the asset tracking and inventory management market segment.

The development team has also begun work on the next generation of new services that can be delivered over the Company's technology platform. Preliminary designs are underway for data security suite services including encryption and data deletion on lost or stolen computers.

During the quarter Absolute has been able to establish a reselling relationship with IBM, under which IBM has begun to resell the ComputracePlus service to their small and medium sized business customer base.

Financial:

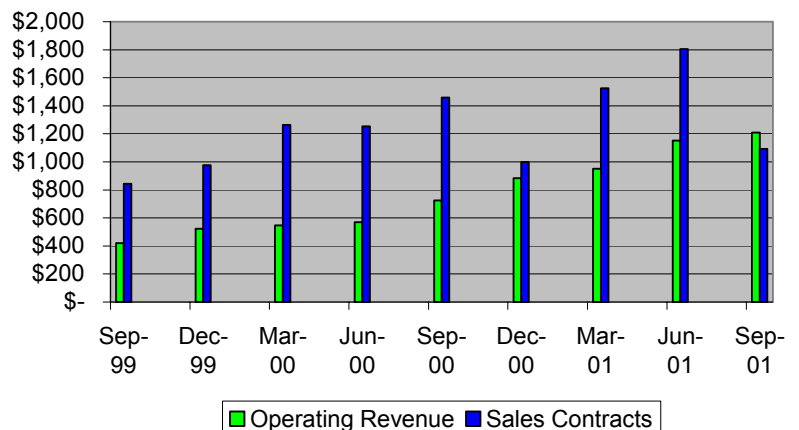
Operating revenue of \$1.21 million for the three months ended September 30, 2001 represents a 67% increase over the \$0.72 million in the corresponding quarter of fiscal 2001. Approximately 93% of the growth is due to increases in monitoring revenue, while the remainder relates to licenses, installation and other operating service/product revenues.

A sales contract is recognized as monitoring revenue on a straight-line basis over the life of the contract (generally one to three years). Consequently, growth in monitoring revenue is directly related to the inter-relationship between the cumulative growth in sales contracts and changes in the average contract terms. Accordingly, despite a decline in sales contracts for the current quarter, it is the cumulative effect of growth rates in prior quarters, which has generated positive growth in Q1'02 monitoring revenue.

The gross margin of 70% for Q1'02 represents an improvement over the 60% margin achieved in the same quarter of the prior year. The gross margin, in part, will be affected by the amount of maintenance work on existing services versus research and development work on new services undertaken by the development team during the reporting period. The improved margin for this quarter primarily reflects increased efforts by the development team on new services and the stability of the existing ComputracePlus service. The gross margin is expected to come down slightly over the next several quarters as updates are released for the AbsoluteTrack service.

In the wake of low sales contracts for the current period, the expense to sales contract ratio has increased to 225%, versus 151% for the corresponding quarter last year. The Company is currently making efforts to reduce operating costs, while maintaining a focus on building a critical mass in sales contracts. However, attaining a ratio similar to the same quarter last year is largely dependent upon improvements in the economy and achieving higher sales contract levels.

Quarterly Operating Revenue and Sales Contracts (\$000s)



Selling and marketing costs have decreased slightly from \$1.07 million in the first quarter of 2001 to \$1.02 million in the first quarter of 2002. The decrease largely relates to a \$0.11 million reduction in commission expense resulting from lower sales contracts in Q1'02. This decrease was offset by an increase in net salary costs with new hires in product management and sales, increasing the headcount from 25 at September 30, 2000 to 35 at September 30, 2001.

Research and development costs of \$0.61 million for Q1'02 are \$0.22 million higher than the comparable quarter last year due to increased staffing levels in the development team, coupled with higher consulting expenses and an increased allocation of other organization costs associated with the development of new services.

General and administrative (G&A) costs of \$0.46 million for Q1'02 have increased slightly over Q1'01 levels of \$0.44 million. G&A has increased as fewer G&A resources were allocated to the development of new products in Q1'02, with the increase being offset by a similar decrease in recruiting and consulting expenses.

The Company's reported net loss has remained relatively constant between the quarters ended September 30, 2000 and 2001 as increases in operating revenue have been offset by operating expenses associated with growing the business. Operating expenses have increased 10% from \$1.91 million in the first quarter of fiscal 2001 to \$2.09 million in the current quarter. Nearly half of the increase is due to expansion of Absolute's team of employees, from 54 at September 30, 2000 to 75 employees at September 30, 2001.

As at September 30, 2001, the Company's Balance Sheet reflects cash and short-term investment balances of \$15.48 million (\$0.77 per share) and no debt other than trade payables and deferred revenue. Absolute's working capital position remains strong at \$12.64 million (\$0.63 per share), down from \$14.06 million (\$0.69 per share) at June 30, 2001. Accordingly, Absolute is well-positioned to meet its ongoing obligations as they come due, and has the financial resources to carry out its sales and marketing efforts and to continue to develop new services based on its proprietary technology platform. During the quarter, one of the Company's short-term investments was subject to a rating change. The bond in question is now rated BBB+ (investment grade) instead of A and, as a result, falls outside the Company's policy of holding A rated instruments. Management is continuing to monitor the situation but has elected not to sell the bond at this time due to its short-term maturity (June 2002).


Deferred revenue balances have declined from \$6.21 million at June 30, 2001 to \$6.18 million at September 30, 2001. The decrease represents the amount by which operating revenue recognized (\$1.21 million) exceed new sales contracts booked (\$1.09 million), combined with a \$0.09 million increase from foreign exchange on USD contracts. The average sales contract term increased from 22 months in for Q1'01 to 29 months for Q1'02. While pricing practices have remained consistent between the two quarters, the average term for any given quarter is expected to fluctuate. Generally, an increase in the average term is perceived as positive and is consistent with Company objectives to maximize contract terms, thus reducing the sales efforts for future periods.

Outlook:

Absolute is pleased with the expansion of its service offerings with launch of AbsoluteTrack and the installation of systems with its international business partners. Currently, the Company is forecasting growth in sales contracts in the range of 5 to 15% over FY2001 levels without the benefit of another significant PC original equipment manufacturer (OEM) initiative. The Company continues to pursue expansion of its OEM partner offerings and with success in this area expects that the growth in sales contracts will improve from the forecasted levels.

Cash used in operations has remained at approximately \$1 million per quarter over the last several quarters. In light of the economic slowdown and the Company's low level of sales contracts for Q1'02, it is possible that this figure will increase to \$1.5 million per quarter. However, the Company is attempting to curtail expenditures and reduce this burn rate.

Regards,

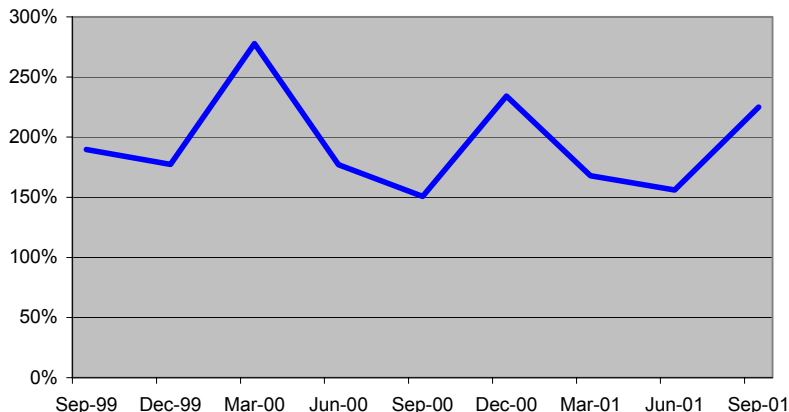


John Livingston
CEO and President
Absolute Software Corp.

Forward-Looking Statements

This quarterly report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements relate to, among other things, plans and timing for the introduction or enhancement of our services and products, and other expectations, intentions and plans contained in this quarterly report that are not historical fact. When used in this quarterly report, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect our current expectations. They are subject to a number of risks and uncertainties, including, but not limited to, changes in technology and general market conditions. In light of the many risks and uncertainties you should understand that we cannot assure you that the forward-looking statements contained in this quarterly report will be realized.

Cost of Goods Sold and Operating Expenses as a Percent of Sales Contracts



Financial Statements:

ABSOLUTE SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(Expressed in Canadian Dollars)

	For the Three Months Ended September 30,	
	2001	2000
	(unaudited)	(unaudited)
Income:		
Monitoring	\$ 1,177,603	\$ 724,965
Installation, licence & other fees	31,916	-
	<u>1,209,519</u>	<u>724,965</u>
Cost of goods sold:		
Monitoring, support and recovery	224,773	168,523
Technical support and product maintenance	141,666	120,821
	<u>366,439</u>	<u>289,344</u>
Gross margin	843,080	435,621
Expenses:		
Selling and marketing	1,020,348	1,073,769
Research and development	613,013	390,248
General and administrative	459,787	443,689
	<u>2,093,148</u>	<u>1,907,706</u>
Loss from operations	1,250,068	1,472,085
Interest and other income (expense)	216,741	290,432
Interest expense and bank charges	(7,698)	(5,227)
Foreign exchange gains and (losses)	(136,807)	(17,960)
Loss for the period	1,177,832	1,204,840
Deficit, beginning of period	25,924,370	20,798,448
Deficit, end of period	<u>\$ 27,102,202</u>	<u>\$ 22,003,288</u>
Basic loss per common share (Note 4)	\$ (0.06)	\$ (0.06)
Diluted loss per common share (Note 4)	\$ (0.06)	\$ (0.06)
Weighted number of shares outstanding	20,286,476	20,295,033

ABSOLUTE SOFTWARE CORPORATION
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Dollars)

	As at	
	September 30,	June 30,
	2001	2001
	(unaudited)	(audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 9,415,665	\$ 6,615,998
Short-term investments	6,069,255	10,162,264
Accounts receivable	1,347,996	1,553,753
Investment tax credits receivable	-	30,000
Prepaid expenses and deposits	90,596	108,038
	<u>16,923,512</u>	<u>18,470,053</u>
Loans to employees	1,018,967	986,878
Capital assets	738,569	721,314
	<u>\$ 18,681,048</u>	<u>\$ 20,178,245</u>
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 524,835	\$ 752,911
Current portion of deferred revenue	3,755,224	3,659,425
	<u>4,280,059</u>	<u>4,412,336</u>
Long-term portion of deferred revenue	2,424,218	2,555,330
	<u>6,704,277</u>	<u>6,967,666</u>
Shareholders' equity		
Common shares (Note 2(i))	\$ 39,092,594	
Less: repurchased and not cancelled, at cost (Note 2(iii))	(44,270)	
Contributed surplus on common shares (Note 2(iii))	30,649	
Deficit	<u>(27,102,202)</u>	<u>(25,924,370)</u>
	11,976,771	13,210,579
	<u>\$ 18,681,048</u>	<u>\$ 20,178,245</u>

ABSOLUTE SOFTWARE CORPORATION
CONSOLIDATED CASH FLOW STATEMENTS
(Expressed in Canadian Dollars)

For the Three Months Ended
September 30,

	2001	2000
	(unaudited)	(unaudited)
Cash flows from operating activities:		
Loss for the period	\$ (1,177,832)	\$ (1,204,840)
Items not involving cash:		
Amortization	58,240	49,156
Share-based compensation to employees	-	-
Common shares issued for services	-	-
Interest and exchange on loans to employees	(32,089)	(12,566)
Changes in non-cash operating working capital:		
Accounts receivable	205,757	(522,119)
Prepaid expenses and deposits	17,442	3,857
Investment tax credit receivable	30,000	-
Accounts payable and accrued liabilities	(228,077)	(93,864)
Deferred revenue	(35,313)	798,210
Net cash used for operating activities	(1,161,872)	(982,166)
Cash flows from investing activities:		
Capital assets purchased, net of investment tax credit	(75,494)	(110,902)
Short-term investments	4,093,009	-
Net cash used for investing activities	4,017,515	(110,902)
Cash flows from financing activities:		
Common shares repurchased and cancelled, average price	(42,355)	-
Common shares repurchased and not cancelled, average price	(44,270)	-
Contributed surplus on cancelled common shares	30,649	-
Common shares issued for cash, net of share issue costs	-	2,638
Net cash provided (used) by financing activities	(55,976)	2,638
Decrease in cash and cash equivalents	2,799,667	(1,090,430)
Cash and cash equivalents, beginning of period	6,615,998	20,282,123
Cash and cash equivalents, end of period	\$ 9,415,665	\$ 19,191,693

ABSOLUTE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

For the Three Months Ended September 30, 2001

1. Significant accounting policies

The Company has followed the same accounting policies and methods of application in the preparation of these interim consolidated financial statements as were used in the audited consolidated financial statements for the year ended June 30, 2001, except for the change to the treasury stock method in place of the imputed earnings approach in determining diluted earnings per share adopted on a retroactive basis effective July 1, 2001 (see Note 4).

2. Share Capital

	Number of Shares	Amount
(i) Issued Common Shares:		
Balance at June 30, 2001	20,326,033	\$ 39,134,949
Common shares repurchased and cancelled	(22,000)	(42,355)
Balance at September 30, 2001	20,304,033	39,092,594

(ii) Escrow agreement: On September 28, 2001, 1,673,106 common shares were released from escrow. There are no further common shares subject to an escrow agreement.

(iii) Normal course issuer bid: During the three months ended September 30, 2001, the Company repurchased 112,000 of its common shares at an average of \$0.50 per share in accordance with the normal course issuer bid approved on June 18, 2001. Of the 112,000 common shares, 22,000 were cancelled by September 30, 2001, with the remainder cancelled in October 2001. Shares repurchased and pending cancellation are shown at cost of \$44,270 as a reduction to shareholders equity. Upon cancellation, share capital is reduced at the imputed per share value and the difference credited to contributed surplus.

	Repurchased and Cancelled	Pending Cancellation *
Contributed surplus		
Number of common shares repurchased at September 30, 2001	22,000	90,000
Imputed value of common shares repurchased	\$ 42,355	\$ 173,276
Less: common shares repurchased at cost	11,706	44,270
Contributed surplus	30,649	129,006

* Contributed surplus to be created upon cancellation of uncanceled shares repurchased at September 30, 2001.

(iv) From October 1 to November 2, an additional 100,500 shares were repurchased at an average of \$0.35 per share.

3. Segmented Disclosures

The Company carries on business in the computer security monitoring industry and all sales are made in this segment. Business is conducted in the United States, Canada and internationally through resellers in South Africa and the United Kingdom.

Segmented Revenues for the Three Months Ended September 30, 2001:

	United States	Canada	International	Total
Monitoring revenue	\$ 978,483	\$ 172,027	\$ 27,093	\$ 1,177,603
Installation services, licensing fees and other revenues	31,916	-	-	31,916
	\$ 1,010,399	\$ 172,027	\$ 27,093	\$ 1,209,519

Segmented Revenues for the Three Months Ended September 30, 2000:

	United States	Canada	International	Total
Monitoring revenue	\$ 624,808	\$ 100,157	-	\$ 724,965

4. Earnings Per Share

Effective July 1, 2001, the Company adopted the treasury stock method of determining earnings per share. Under this method, basic earnings per share are based on the weighted average number of common shares outstanding during the period, while diluted earnings per share are based on the weighted average number of common shares and dilutive stock options and warrants outstanding at the beginning of or granted during the period.

As the Company recorded a loss for the three month period ended September 30, 2000 and 2001, there is no difference between the basic and diluted earnings per share. At September 30, 2001 there were 781,500 (181,500 at September 30, 2000) potentially dilutive stock options and warrants outstanding.

Common shares repurchased and pending cancellation at September 30, 2001 have been excluded from the weighted average number of shares for both basic and diluted earnings per share. Refer to Note 2 for common shares repurchased subsequent to September 30, 2001. The repurchased shares will have a dilutive impact on the earnings per share calculations in future periods.

CORPORATE INFORMATION

Board of Directors:

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Terry Libin
Calgary, AB

John Livingston
Vancouver, BC

Peter Scott
Vancouver, BC

Ian Reid
Vancouver, BC

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CIBC Mellon Trust
<http://www.cibcmellon.com>

Auditors:
KPMG LLP
Vancouver, BC

Legal Counsel:
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Stock Exchange Listing:
Canadian Venture Exchange (CDNX)
Trading Symbol: ABT

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Phil Gardner
Chief Technology Officer

Peter Scott
Executive Vice President & Chief Financial Officer

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James Mantell
Vice President, Sales, United States

Michael Anfield
Vice President, Recovery Services

Don Hughes
Director, Channel Sales

Fred McConnell
Director of Development

Grant Kendall
Director of Sales, Canada

Mark St. Quintin
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Robert Chase
Director of Finance & Corporate Controller

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