

RESULTS FOR Q2'03 RELATIVE TO GUIDANCE ISSUED NOVEMBER 7, 2002

Absolute has previously provided guidance that sales contracts for the year fiscal 2003 are expected to grow 35% to 50% over fiscal 2002 and that sales contracts for the second quarter of fiscal 2003 were expected to be at the same level attained in the first quarter of fiscal 2003. With sales contracts for Q2'03 up 5% over Q1'03 and up 85% on a year to date basis, management is again reaffirming its annual sales contract growth rate forecast of 35% to 50% and currently expects to be in the upper end of that range. For Q3'03 some growth in sales contracts over Q2'03 is expected but sales contracts are not expected to exceed expenses during the quarter

HIGHLIGHTS

- Q2'03 sales contracts of \$2.41 million were 65% above the \$1.46 million posted in Q2'02, and operating revenue was up 16% to \$1.43 million. When compared to Q1'03, both sales contracts and operating revenue were up 5%.
- The Company reported a net loss for Q2'03 of \$1.25 million (\$0.06 per share), a 16% decrease from the net loss of \$1.48 million (\$0.07 per share) for Q2'02 and a 30% decrease from the prior quarter net loss of \$1.79 million (\$0.09 per share).
- Cash used in operations for Q2'03 was \$0.44 million compared to \$0.41 million for the same period in fiscal 2002 and \$0.10 million for the prior quarter.
- Absolute's reseller channels continued to grow, generating 38% of Q2'03 sales contracts through Dell Computer Corporation ("Dell"), and 42% through other resellers. This compares to 37% through Dell and 12% through other resellers for the same period last year, and 62% and 11% respectively for the prior quarter.
- On December 31, 2002, Absolute completed its substantial issuer bid through which a total of 3,552,632 shares were purchased and cancelled at \$0.38 per share for a total cost of \$1,553,447 including issuer fees.
- Product development milestones during Q2'03 included the launch of AbsoluteEncrypt service at the beginning of February 2003.

DEVELOPMENT AND OPERATIONS

Development and operational activities in the quarter focused on support for AbsoluteTrack & ComputracePlus, continuing development of Absolute Console and the new encryption and firewall products, upgrading customers to the latest release of the enterprise software, and optimizing customer product delivery processes.

Achievement of specific milestones on Absolute Console and encryption led to the commercial availability of AbsoluteEncrypt, the first of several products to use the Console's new browser-based management capabilities. AbsoluteEncrypt improves organizational data security by removing user intervention usually required in the process of encrypting files for users of desktop computers. When used with Absolute's new Absolute Console, the administrative overhead involved in deploying uniform data security policies is also significantly reduced through the Console's powerful grouping capabilities.

Beta and general release candidate software for AbsoluteEncrypt were developed and beta trials were conducted with customers for the purpose of verifying product reliability. These activities were completed during Q2'03 and the product was released on February 6, 2003.

During Q2'03 and continuing into Q3'03, Absolute has also been working toward developing a new distributed firewall product, AbsoluteFirewall. Similar to AbsoluteEncrypt, AbsoluteFirewall will simplify enforcement of corporate network security policies. Absolute is currently completing development, integration and trial activities and anticipates AbsoluteFirewall to be available for sale in Q3'03.

With the addition of encryption and firewall products, Absolute's security offerings will span three pillars of PC security; physical security (ComputracePlus), data security (AbsoluteEncrypt) and network security (AbsoluteFirewall). The Absolute Console will facilitate management of all of Absolute's solutions, providing administrators with a powerful tool for efficiently and effectively tracking and securing the corporate mobile and desktop PC population. In particular, once one product has been deployed, the Computrace Technology Platform will allow deployment of additional products with the click of a mouse.

In Q1'03, Absolute announced the release of an enterprise software version of ComputracePlus and AbsoluteTrack for corporate customers who prefer to manage the products in-house. During Q2'03, existing customers who originally purchased a customized software version of Absolute's products were successfully upgraded to the new software release.

During the quarter, Absolute's development team completed optimization of the customer management and product delivery processes. This continues the implementation and integration of the Customer Relationship Management ("CRM") system to provide the organization with a common, consolidated view of customer information. Integration of the CRM system with Absolute's product delivery platform enables significant improvements in operational efficiency, allowing cost effective scaling of operations and support to meet delivery demands from current and new products.

MANAGEMENT'S DISCUSSION & ANALYSIS OF SECOND QUARTER FISCAL 2003 RESULTS

Sales contracts and operating revenue

	<u>Quarter Ended</u>			<u>Six Months Ended</u>		
	<u>% Increase</u>	<u>Dec'02</u> (000's)	<u>Dec'01</u> (000's)	<u>% Increase</u>	<u>Dec'02</u> (000's)	<u>Dec'01</u> (000's)
Sales contracts	65%	\$2,411	\$1,462	85%	\$4,717	\$2,555
Operating revenue	16%	\$1,435	\$1,237	14%	\$2,797	\$2,447

Sales contracts and operating revenue are key measures for Absolute. Sales contracts are a non-GAAP measure and do not have a standardized meaning prescribed by GAAP and as such a reconciliation to GAAP measures is provided with the discussion of deferred revenue below.

As stated in the year-end management discussion and analysis, part of Absolute's go forward sales contract growth strategy has been to focus on deepening and broadening its reseller channels. This strategy is a significant driving force behind the growth in sales contracts for the current fiscal year, and efforts are focused on ensuring this trend continues. Both Q1'03 and Q2'03 were record quarters for sales contracts for Absolute and were also record

quarters for sales contracts generated through reseller channels. The following table indicates the percent of sales contracts generated through Dell Computer Corporation ("Dell"), Absolute's most successful channel partner, and other resellers:

	<u>Q2'03</u>	<u>Q2'02</u>	<u>YTD'03</u>	<u>YTD'02</u>
Dell	38%	37%	50%	34%
Other Resellers	42%	12%	27%	16%
Total	80%	49%	77%	50%

The Q2'03 increase in operating revenue is consistent with the 9% sales contract growth in fiscal 2002, raised slightly to 16% on the strength of Q1'03 and Q2'03 sales contracts. Sales contract terms have traditionally averaged in the range of 25 to 29 months, and as such, fiscal 2003 operating revenue is directly related to the deferred revenue balances built up from sales contracts over the past three fiscal years, plus a portion of current year sales contracts. Contract terms for Q2'03 at an average of 29 months were consistent with the traditional range.

Cost of goods sold and gross margin

The gross margin of 69% for Q2'03 improved over the 59% level in the prior quarter, and the 63% level attained in Q2'02. The variance in the gross margin is largely determined by the level of maintenance and improvement work on existing products and processes versus research and development work on new products and software undertaken by the development and support team. As expected, the gross margin increased relative to Q1'03 largely due to a decline in payroll costs as the development and support team focused efforts on Absolute's new encryption and firewall products. The reduction in allocated payroll costs was partially offset by an increase in consulting expenses as temporary staff were used for general maintenance work. Relative to Q2'02 the gross margin improved due to an increase in operating revenue combined with a small reduction in costs. On a year to date basis the gross margin of 64% has declined slightly compared to the prior year gross margin of 66%.

Operating expenses

Selling and marketing costs of \$1.17 million in Q2'03 declined 12% from \$1.32 million in Q2'02, but increased 5% on a year to date basis to \$2.46 million for the six months ended December 31, 2002. The decline relative to Q2'02 is primarily due to severance costs associated with a reduction in force carried out in Q2'02. The overall increase for the year to date is due to increased commission and operational expenses associated with the increased sales contract level attained to date in fiscal 2003.

Research and development (R&D) costs for the current year to date of \$1.37 million are 19% higher than the same period last year, and on a quarterly basis, Q2'03 costs of \$0.69 million are 27% higher than the corresponding quarter last year. The increase primarily relates to increased R&D projects for upgrade of existing and development of new products that have led to expansion of the R&D team and an increase in consulting costs.

General and administrative (G&A) costs remained relatively constant at \$0.50 million for both Q2'03 and \$0.98 million for the current year to date, compared to \$0.51 million and \$0.97 million for same periods last year. Interest and other income decreased 52% to \$0.17 million for the current year to date from \$0.36 million for the same period last year. The decrease is consistent with the decline in the average cash balance for the period and the period over period decline in interest rates. Higher interest rates in the prior year were attained from bonds purchased in fiscal 2001 that carried a yield in excess of 5%.

The reported loss for Q2'03 of \$1.25 million improved by 16% from the loss \$1.48 million for Q2'02, and by 30% from the \$1.79 million loss in Q1'03. On a year to date basis, the current year loss of \$3.04 million has increased 15% from the loss of \$2.66 million for the prior year. The improvement over Q1'03 came primarily as result of the improvement in gross margin, lower sales costs for the quarter and the strengthening Canadian dollar. Relative to Q2'02, the period loss improved on relatively flat overall operating expense levels, while operating revenues improved. The year to date loss has increased following the increase in R&D projects, the 52% decline in interest income, and the increase in selling expenses associated with higher sales contract volumes.

Liquidity and Financial Resources

Cash used in operations for the six months ended December 31, 2002 improved to \$0.53 million from \$1.57 million in the corresponding period last year. On a quarterly basis, cash used in operations of \$0.44 million in Q2'03 was

higher than the \$0.41 million used Q2'02, and the \$0.10 million used in Q1'03. The improvement on a year to date basis is due to the increased sales contract level and an improved timing in accounts receivable collection.

Absolute continues to maintain a strong balance sheet and is well positioned to finance its growth and development objectives. As at December 31, 2002, Absolute had cash, cash equivalent, and short-term investment balances totaling \$9.85 million (\$0.62 per share), compared to \$12.09 million (\$0.62 per share) at June 30, 2002. Absolute continues to hold excess cash resources in investment grade bonds and investment certificates.

The cash per share has remained consistent despite the decline in cash balances as a result of the reduction in the number of shares outstanding following purchase and cancellation of 3,552,632 shares on December 31, 2002 through Absolute's substantial issuer bid. Coupled with purchases under the normal course issuer bid, Absolute has reduced the shares outstanding to 15,936,901 at December 31, 2002 from 19,637,033 at June 30, 2002.

Absolute's deferred revenue balance has grown on the strength of year to date sales contracts. With an average term of 29 months, the Q2'03 sales contracts will be recognized as monitoring revenue on a straight-line basis and, together with sales contracts from prior periods, will determine the rate of increase in monitoring revenue. The change in the deferred revenue balance for the period is explained in the following table.

Deferred Revenue (000's):

Open balance, September 30, 2002	\$8,571
Q2'03 sales contracts	2,411
Q2'03 operating revenue	(1,435)
Foreign exchange and other adjustments	60
Closing balance, December 31, 2002	\$9,607

OUTLOOK

Absolute is looking to build on another solid quarter. The new security product AbsoluteEncrypt has been recently released and another new product, AbsoluteFirewall, is planned for release prior to the end of the third fiscal quarter. These new products will complement Absolute's existing offerings and provide customers with simple and effective solutions as part of an effective corporate strategy for physical, data and network security. Sales contracts are expected to grow modestly over the second quarter level of \$2.41 million and expenses are expected to be at the more traditional level of \$3 million per quarter. As a result, cash used in operations is expected to increase from the \$0.44 million used this quarter. On a year to date basis cash used in operations is expected to be down considerably from the \$2.68 million used through three-quarters last year.

Regards,



John Livingston
Chief Executive Officer

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.

FINANCIAL STATEMENTS

ABSOLUTE SOFTWARE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
 (Expressed in Canadian Dollars)

	Three Months Ended December 31,		Six Months Ended December 31,		2001 (unaudited)	2001 (unaudited)
	2002 (unaudited)	2001 (unaudited)	2002 (unaudited)	2001 (unaudited)		
Revenue:						
Monitoring revenue	\$ 1,434,660	\$ 1,167,089	\$ 2,767,518	\$ 2,344,691		
Installation services, licence fees & other revenues	-	70,233	29,867	102,149		
	1,434,660	1,237,322	2,797,385	2,446,840		
Cost of goods sold:						
Monitoring, support and recovery	211,450	221,755	497,675	446,529		
Technical support and product maintenance	237,128	235,541	506,343	377,207		
	448,578	457,296	1,004,018	823,736		
Gross margin	986,082	780,026	1,793,367	1,623,104		
Expenses:						
Selling and marketing	1,165,193	1,318,684	2,460,169	2,339,032		
Research and development	687,996	539,877	1,368,443	1,152,891		
General and administration	497,541	508,023	979,324	967,810		
	2,350,730	2,366,584	4,807,936	4,459,733		
Operating loss	1,364,648	1,586,558	3,014,569	2,836,629		
Interest and other income	85,920	140,639	170,936	357,380		
Interest expense and bank charges	(5,048)	(3,711)	(13,040)	(11,409)		
Foreign exchange gain (loss)	34,009	(29,629)	(187,831)	(166,435)		
Loss for the period	1,249,767	1,479,259	3,044,504	2,657,093		
Deficit, beginning of period	33,327,559	27,102,204	31,532,822	25,924,370		
Deficit, end of period	\$ 34,577,326	\$ 28,581,463	\$ 34,577,326	\$ 28,581,463		
Basic and diluted loss per common share (Note 4)	\$ (0.06)	\$ (0.07)	\$ (0.16)	\$ (0.13)		
Weighted number of shares outstanding	19,451,564	19,984,979	19,521,500	20,137,085		

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

	As at	
	December 31, 2002 (unaudited)	June 30, 2002 (audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,863,869	\$ 6,640,302
Short term investments	5,990,736	5,448,176
Accounts receivable	1,514,858	1,712,718
Current portion of loans to directors and employees (Note 2)	-	108,571
Prepaid expenses and deposits	186,497	168,489
	11,555,960	14,078,256
Loans to directors and employees (Note 2)	618,586	497,819
Capital assets	902,719	915,127
	\$ 13,077,265	\$ 15,491,202
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 750,084	\$ 798,720
Current portion of deferred revenue	5,153,419	4,094,080
	5,903,503	4,892,800
Deferred revenue	4,453,751	3,280,440
	10,357,254	8,173,240
Shareholders' equity		
Share capital (Note 3(i))	30,684,640	37,808,075
Contributed surplus (Note 3(ii))	6,612,697	1,042,709
Deficit	(34,577,326)	(31,532,822)
	2,720,011	7,317,962
	\$ 13,077,265	\$ 15,491,202

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

	Three Months Ended December 31,		Six Months Ended December 31,	
	2002	2001	2002	2001
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash provided by (used in) operations:				
Loss for the year	\$ (1,249,767)	\$ (1,479,259)	\$ (3,044,504)	\$ (2,657,093)
Items not involving cash:				
Amortization	78,292	86,985	158,397	145,225
Interest and foreign exchange on loans to employees	(3,212)	(8,389)	(12,196)	(40,478)
Changes in non-cash operating working capital:				
Accounts receivable	(147,337)	296,111	197,860	501,868
Prepaid expenses and deposits	(30,304)	36,208	(18,008)	53,650
Investment tax credit receivable	-	-	-	30,000
Accounts payable and accrued liabilities	(120,699)	368,468	(48,634)	140,391
Deferred revenue	1,035,996	288,614	2,232,650	253,301
	(437,031)	(411,262)	(534,435)	(1,573,136)
Cash provided by (used in) investing:				
Property and equipment purchased	(99,311)	(194,859)	(145,991)	(270,351)
Disposition (acquisition) of short-term investments	3,903,568	(25,525)	(542,560)	4,067,484
	3,804,258	(220,384)	(688,551)	3,797,133
Cash provided by (used in) financing:				
Common shares repurchased	(1,513,904)	(217,804)	(1,553,447)	(273,780)
	(1,513,904)	(217,804)	(1,553,447)	(273,780)
Increase (decrease) in cash and cash equivalents	1,853,323	(849,450)	(2,776,433)	1,950,217
Cash and cash equivalents, beginning of period	2,010,547	9,415,665	6,640,302	6,615,998
Cash and cash equivalents, end of period	\$ 3,863,869	\$ 8,566,215	\$ 3,863,869	\$ 8,566,215

ABSOLUTE SOFTWARE CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

For the Six Months Ended December 31, 2002

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, 2002.

2. Loans to Directors and Employees

During the quarter ended September 30, 2002, the maturity date for US dollar loans with a carrying value of C\$108,571 was extended from October 7, 2002 to January 7, 2004. Accordingly, the carrying value was reclassified from current assets. No other terms were changed.

3. Share Capital

(i) Issued Common Shares:	Number of Shares	Amount
Balance at June 30, 2002	19,637,033	\$ 37,808,075
Common shares repurchased at average cost to December 31, 2002	(3,700,132)	(7,123,435)
Balance at December 31, 2002	15,936,901	\$ 30,684,640

(ii) Substantial and normal course issuer bid: The Company received approval for a substantial and a normal course issuer bid on November 18, 2002 and August 21, 2002 respectively. On December 31, 2002, the substantial issuer bid closed and the Company purchased 3,552,632 of its common shares at \$0.38 per share plus transaction costs for a total of \$1,553,447. During the six months ended December 31, 2002, the Company purchased 147,500 of its common shares under the normal course issuer bid at an average of \$0.30 per share. All the purchased common shares are cancelled, and share capital is reduced at the impured per share value, with contributed surplus credited for the difference to the actual amount paid. No share purchases have been made between December 31, 2002 and the date of this report.

Contributed surplus

Balance at June 30, 2002	\$ 1,042,709
Add: impured value of common shares repurchased	7,123,435
Less: common shares repurchased at cost	(1,553,447)
Balance at December 31, 2002	\$ 6,612,697

4. 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 periods ended December 31, 2002:

	United States			Canada			International			Total		
	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo
Monitoring revenue	\$1,254	\$2,417	\$ 153	\$ 306	\$ 28	\$ 45	\$ 1,434,660	\$ 2,767,518				
Other	30	-	-	-	-	-	-	29,867				
	\$1,254	\$2,447	\$ 153	\$ 306	\$ 28	\$ 45	\$ 1,434,660	\$ 2,797,385				

Segmented Revenues for the periods ended December 31, 2001:

	United States			Canada			International			Total		
	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo	3 Mo	6 Mo
Monitoring revenue	\$ 993	\$1,972	\$ 145	\$ 317	\$ 29	\$ 56	\$ 1,167,089	\$ 2,344,691				
Other	70	102	-	-	-	-	70,233	102,149				
	\$1,063	\$2,074	\$ 145	\$ 317	\$ 29	\$ 56	\$ 1,237,322	\$ 2,446,840				

5. Earnings Per Share

As the Company recorded a loss for the six month period ended December 31, 2002 and 2001, there is no difference between the basic and diluted earnings per share. At December 31, 2002 there were 603,000 (192,500 at December 31, 2001) potentially dilutive stock options and warrants when compared to the period average stock price.

OFFICERS AND SENIOR MANAGEMENT

John Livingston

President & Chief Executive Officer

Peter Scott

Executive Vice President & Chief Financial Officer

Phil Gardner

Chief Technology Officer

Michael Anfield

Vice President, Recovery Services

Rob Chase

Vice President Finance & Corporate Controller

Bob Chow

Vice President Sales

Ben Haidri

Vice President Business Development & Marketing

Don Hughes

Area Vice President Channel Sales

Fred McConnell

Vice President Development & Operations

Mark St. Quintin

Vice President Product Management

Leo Raffin

Corporate Secretary

BOARD OF DIRECTORS

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Chairman, President &
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Absolute Software
Vancouver, BC

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Terry Libin

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The TSX Venture Exchange has neither approved nor disapproved of the information contained in this news release.

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CIBC Mellon Trust
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COMMON SHARES

Absolute Software common shares are traded on the TSX Venture Exchange (TSX-VEN) under the trading symbol ABT.