

AbsoluteSoftware

Company business plan

Budget forecasts for next two years

500 Outlook contacts

Salary and bonus information for 5,000 employees

Sales projections by client

PowerPoint presentations

Notes from corporate strategy sessions

Potential acquisition targets

Patent applications

Financial results

Video of baby's first steps

Digital photos from family vacation

Investment records

Draft screenplay

Two years of classroom notes

Twelve months of email

2,000 MP3's

Caucus speech

2005 Annual Report

Passwords

Customer contact info

Medical records

Client proposals

Employee reviews

Resume

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Client list

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Price lists

Vacation plan

Corporate restructuring

Brand strategy

Production schedules

New product design specs

Blueprints

IPO Presentation

To do list

Auditors' report

More than 600,000
laptops are stolen
each year.

What would you lose?

Absolute Software is the standard in secure
asset tracking and computer theft recovery.

Defining the Standard

1

The OEM Advantage

Absolute's primary distribution model is based on generating sales through PC manufacturers ("OEMs") – namely Dell, HP, Lenovo (formerly IBM), Gateway, Toshiba and Apple. Increasingly, OEMs are looking for third-party products that can add value for their customers and generate new revenue streams. In addition, now more than ever, OEMs are focused on delivering enhanced security features to protect both the computing device and its data. Absolute's ability to satisfy these objectives has enabled it to build strong OEM relationships that can leverage OEM sales and marketing activities to drive sales while at the same time creating a competitive advantage.

2

The BIOS, or "Embedded", Strategy

Under the Embedded Strategy, an OEM embeds Absolute's Computrace technology into the BIOS of every laptop produced. This enhances the persistence of Absolute's software making it the most secure and robust theft recovery and asset tracking solution on the market. It creates opportunities to drive customer demand through sales and marketing initiatives undertaken with the OEMs and extends Absolute's competitive advantage as there is little room in the BIOS for multiple applications of this nature. By August 2005, Lenovo and Gateway had adopted the Embedded Strategy and Absolute continues to work with its other OEM partners to expand the reach of this strategy.

3

Market Share Leader

Absolute targets three primary markets - education, corporate and consumer – and is the market share leader in theft recovery for each segment. In the education vertical, Absolute now has 9 of the top 15 school districts in the U.S. as customers. The corporate vertical is Absolute's longest standing market and activity in the corporate segment is expected to increase as a result of the Embedded Strategy. Consumer market sales continue to grow and recent partner agreements with CompUSA and LoJack are expected to open up the consumer market to a broader audience and further increase the percentage of sales derived from this vertical.

4

LoJack® for Laptops

In order to penetrate the consumer market in a meaningful way, Absolute sought to associate itself with a well-known brand name in the U.S. consumer security marketplace. As a result, Absolute is working with LoJack Corporation to leverage their brand and leadership position by incorporating the LoJack brand name into Absolute's computer theft recovery products. LoJack is the undisputed leader in global stolen vehicle recovery and a pioneer in tracking and recovering stolen assets. Incorporating the LoJack name into the Computrace product as 'LoJack for Laptops' will help build both brands and further reinforce Absolute's leadership position in the computer theft recovery market.

5

Comprehensive Patent Portfolio

Absolute has 12 patents issued and two pending patents. The patents cover the Computrace technology and use of that technology in computer theft recovery and secure asset tracking. Maintaining the patent portfolio is a key element for securing the Company's industry leader position, and keeping competitors from entering Absolute's OEM sales channels. In addition, the patent portfolio can provide an alternate licensing revenue stream. During fiscal 2005, Absolute began enforcing its patents resulting in six competitors exiting the business.

1

“We can’t afford to lose machines. And as the form factor of laptops and desktops is shrinking, the potential for theft is increasing.

Computrace is critical to our recognition of leased-cost savings, our ability to control and prosecute theft, and our opportunities to leverage our asset management program.”

Dave Johnson,
Director of Technology Infrastructure, Grant Thornton LLP

2

“The Dallas Independent School District takes education very seriously and computers are an essential learning tool. Therefore we must be serious about protecting our district’s laptop and desktop computers.

Computrace has been a necessary tool for us in our efforts to manage laptop theft and it has performed very well. To date, Absolute Software has recovered 89 computers that were taken from our district.”

Dr. Don L. Smith
Director, Instructional Technology, Dallas Independent School District

Market Drivers

The market for Absolute's products is being driven by the proliferation of laptops, the ever-increasing size of the hard drives that they contain, the growth in internet connectivity, and widespread data security concerns. The increase in size of a laptop's hard drive means that more critical data is now being stored on the devices and as a result, the "apparent value" of the device is accelerating. The information being stored on a laptop can vary from strategic corporate documents to priceless personal mementos such as video clips, photos and notes. Not only are corporations and individuals interested in tracking and recovering lost or stolen hardware, but they are also confronted with the task of protecting the lost or stolen information that it contains.

MAJOR INCIDENCES OF IDENTITY INFORMATION LOST OR STOLEN IN Q2 2005*:

Date	Company/Organization	Type of Breach	Individuals Affected
March 11	University of California at Berkeley	Stolen laptop	98,400
March 12	Nevada Department of Motor Vehicles	Stolen computer	8,900
April 5	MCI	Stolen laptop	16,500
April 8	San Jose Medical Group	Stolen computer	185,000
April 15	California Dept. of Health Services	Stolen laptop	21,600
April 26	Christus St. Joseph's Hospital	Stolen computer	19,000
April 29	Oklahoma State University	Missing laptop	37,000
May 4	Colorado Health Department	Stolen laptop	1,600 (families)
May 7	Department of Justice	Stolen laptop	80,000
May 27	Cleveland State University	Stolen laptop	44,420
June 10	Federal Deposit Insurance Corp.	Not disclosed	6,000
June 17	Kent State University	Stolen laptop	1,400
June 22	Eastman Kodak	Stolen laptop	5,800
June 29	Bank of America	Stolen laptop	18,000
June 30	Ohio State University Medical Center	Stolen laptop	15,000

Total individuals affected: 558,620

In addition to the inherent need to protect computing assets and the data contained on them, emerging market drivers for Absolute such as, legislation to protect privacy and the associated liability of confidential corporate information being made public, are forcing organizations to adopt stringent security measures to guard against loss or theft of those assets. From an individual perspective, the risk of identity theft becomes very real when a computer containing personal information is lost or stolen.

The last year saw an increase in spending on security products as rising concerns over privacy issues have continued to mount in the wake of widely publicized security breaches. Unfortunate events such as those that occurred at the University of California, Berkley earlier in 2005, where a stolen laptop containing Social Security numbers and other personal data for nearly 100,000 alumni, graduate students and past applicants was stolen, have heightened awareness for the potentially crippling costs companies face if personal information is compromised.

Schools, businesses and other organizations of all types are realizing that basic data protection is a primary concern. Lobbyists and privacy activists are demanding that governments take action to protect their personal information.

In the U.S., data protection has become such a hot topic that newly passed federal and state legislation has introduced onerous consequences for those who do not take security seriously. Regulatory documents such as the California Senate Bill 1386, the Health Insurance Portability and Accountability Act (HIPAA) and Gramm-Leach-Bliley, are demanding tighter controls and accountability over corporate and personal information. Meanwhile, Sarbanes-Oxley, introduced in 2002 on the heels of a wave of corporate fraud, mandates stricter controls over reporting and accounting for corporate assets. Largely as a result of concerns over regulatory compliance, a recent Gartner study found that corporate security was listed as the number one priority for IT spending over the next year.

To protect themselves against liability that can arise from a security breach, the demand for security-related solutions such as theft recovery and asset-tracking by corporate, education and retail customers is on the rise. As a result, demand for Absolute's products is expanding and customers are turning to their PC OEMs for access to Absolute's solutions in their most secure form – embedded in the BIOS. By August 2005, Absolute had embedded its software in the BIOS of Lenovo and Gateway laptops. This is expected to drive sales, expand marketing support, grow Absolute's presence in the PC OEM channels, and increase customer demand. In addition, robust end-user demand is expected to play a key role in advancing discussions to embed Absolute's software in the laptops of all top tier computer manufacturers.

LETTER TO SHAREHOLDERS

DEAR SHAREHOLDER:

Fiscal 2005 was an exceptional year for Absolute. We achieved many key strategic milestones and enjoyed record financial results. Looking forward, we believe that we have the platform in place to build on our recent successes and that we are well positioned for another record year in fiscal 2006.

In fiscal 2005 we set out to drive the industry standard in secure asset tracking and computer theft recovery. Here are some key milestones we achieved toward reaching that goal:

- Reached an agreement with Lenovo (formerly IBM) to embed our software in the BIOS of all new ThinkPad laptops;
- Enforced intellectual property rights, resulting in six competitors choosing to either license our patents, resell our software, or exit the business;
- Signed an agreement with LoJack to brand our consumer offering under the well-known LoJack name;
- Expanded our sales and marketing relationships with key PC Manufacturers; and
- Grew our market share in each of our target markets.

We continue to focus on growing our subscriber base from 440,000 at June 30, 2005 to one million users by June 30, 2007; a level that we believe is representative of Absolute becoming the industry standard.

From a financial perspective, our major achievements included:

- Sales contract growth to a record \$13.2 million, a 50% increase over last year;
- Four successive quarters of positive cash from operations, totaling \$1.3 million for the year and bringing our cash balance at year-end to \$11.9 million; and
- A promising sales pipeline in each of our key target markets - education, corporate and consumer.

As a result, we believe we are well positioned to execute on our growth objectives and continue our sales growth and cash positive trends into fiscal 2006.

The drive for a million subscribers

To achieve our objective of one million subscribers, we will pursue four key strategies in 2006. These strategies also played an important role in our success during fiscal 2005. They are:

1) The BIOS, or “Embedded”, Strategy

Being embedded in the PC hardware is a key component to achieving widespread adoption of Computrace as a new computer security standard. Under our “BIOS” or “embedded” strategy, a PC OEM embeds Absolute’s Computrace technology into the BIOS of every laptop shipped. The BIOS-embedded version is shipped in a non-active state with Absolute and the PC OEM generating revenue when end-users purchase a subscription to activate the Computrace software in the BIOS.

Perhaps our single most exciting news in fiscal 2005 was that Lenovo (formerly the PC manufacturing arm of IBM), adopted our embedded strategy. The majority of the growth in our fourth quarter sales can be attributed to the launch of Lenovo ThinkPads with our software embedded in the BIOS.

On August 9, 2005, we announced Gateway as the second OEM to adopt the embedded strategy. Gateway is the third largest PC OEM in the U.S. and is now shipping Computrace embedded in the BIOS on all its professional series machines. We will continue to pursue the embedded strategy with all top tier PC OEMs during fiscal 2006.

2) OEM Sales and Marketing

Our primary distribution model is to generate sales through the top tier PC OEMs – Dell, Lenovo, Gateway, HP, Toshiba and Apple. We believe our relationships with these PC OEMs deliver a significant competitive advantage for Absolute and we are continually building on these relationships in order to leverage their sales channels and maximize our growth potential. During fiscal 2005 our percent of sales through OEM partners grew to 75%, up from 69% last year, and 55% two years ago.

As our embedded strategy and key branding partnership with LoJack gain momentum throughout 2006, we expect to undertake stronger collaborative sales and marketing initiatives with our PC OEM partners to drive new sales opportunities.

3) Patent Protection

Absolute has 12 issued and two pending patents. The patents cover the Computrace technology and use of that technology in secure asset tracking and computer theft recovery, among other things. These patents are key to protecting our leadership position and our PC OEM relationships, while also creating a competitive advantage.

During fiscal 2005, we began aggressively enforcing our patents. As a result, six competitors exited the business, acquired licenses to Absolute’s patent portfolio, or became resellers of our technology. While patent licensing does provide an alternate revenue stream, the primary focus is to protect our intellectual property and market position.

4) Expand Market Share in Key Target Markets

We focus on three key market segments and together with our PC OEM partners are developing programs aimed at standardizing Absolute’s products in each market.

The Education Vertical

We believe that education is an ideal "fit" for our Computrace and AbsoluteTrack products, and that Computrace has become a must-have product in the K-12 segment of the market.

In the K-12 segment, one-to-one laptop programs are becoming commonplace. Educators are realizing that theft protection and asset tracking are critical components to successful implementation of a laptop program. As a result, we are enjoying strong interest in this vertical and we now have 9 of the top 15 K-12 independent school districts in the U.S. as customers. We believe our success in this vertical will continue with the ongoing roll-out of our embedded strategy and as educators across the U.S. further expand laptop education programs.

The Corporate Vertical

The corporate vertical represents the largest potential market for Absolute. We believe the embedded strategy and the trend toward increasing corporate security have created an opportunity for broad adoption of Absolute's solutions in this market. We've begun to see an increase in our sales pipeline in this market following the launch of our embedded strategy with Lenovo.

On July 13, 2005, we announced a contract for US\$218,000 to a corporate customer that was solely a result of the embedded strategy. Along with an increase in sales pipeline activity, we believe this to be an example of the importance of the embedded strategy in this segment.

The Consumer Vertical

With approximately 1/3 of laptop sales in the U.S. going into the consumer market, we've identified this segment as a significant market opportunity for Absolute. In fiscal 2005 we began expansion of our consumer programs and announced launch of our Computrace Personal offering in 230 CompUSA stores across the U.S. As well, in the fourth quarter we announced that we acquired rights to the LoJack brand name, and in August 2005 we launched "LoJack for Laptops" as our new consumer offering.

We now have a strong U.S. market brand name, and have established consumer programs with CompUSA, Dell, Toshiba, and HP. We plan to continue our consumer expansion efforts in fiscal 2006 and expect sales through this channel to grow toward 20% of total sales contracts over the next two years.

In summary, we believe that fiscal 2005 was a successful year and that we are well positioned to exceed those results in fiscal 2006. As we work toward our one million subscriber target, we see certain market factors working in our favour, including:

- Laptop sales in North America are growing and taking market share from desktops;
- Laptop thefts remain a significant risk factor and were estimated at 600,000 in calendar 2003 (for the U.S. market and growing);
- Laptop storage space is increasing along with the value of the data they contain;
- Demand for Absolute's solutions is being driven by general security concerns, stricter regulatory requirements to protect stored data and greater awareness of our solutions by the PC OEMs; and
- Absolute's Computrace solutions are becoming a "must have" for the U.S. K-12 education market where laptop programs are becoming a key part of the curriculum.

At the same time, we continue to execute on our own strategic directives toward establishing Absolute as the standard for secure asset tracking and computer theft recovery. These include:

- Progress on our embedded strategy with the two PC OEMs signed-up by August 2005, and opportunities to replicate this with other OEMs;
- Developing sales and marketing programs with our PC OEMs that are aligned with their own security-themed offerings;
- Continuing to prove the value of Absolute's patents; and
- Further penetrating the education, corporate and consumer markets.

We are currently witnessing a convergence of technical, strategic and market factors for our solutions. As we move into fiscal 2006, we are excited about our prospects and believe that this convergence will enable us to seize significant share of the opportunity related to laptop security, theft recovery and secure asset tracking.

We'd like to thank our employees and directors for the dedication and hard work that led to record results in fiscal 2005 and our shareholders for their continued support as we execute on our objectives. And above all, we thank our customers for their unwavering loyalty, support, and endless contributions along the way toward helping us establish computer theft recovery as a new standard in computer security.

We look forward to reporting to you in the coming months.

Sincerely,



John Livingston

Chairman and CEO, Absolute Software



Bob Chow

President and COO, Absolute Software

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the years ended June 30, 2005, 2004, and 2003

Dated August 15, 2005

The following Management Discussion and Analysis is prepared in accordance with National Instrument 51-102F1 and should be read in conjunction with the Company's 2005 Consolidated Financial Statements and accompanying notes. These documents along with additional information about the Company, including the Annual Information Form, are available at www.absolute.com and www.sedar.com.

Certain statements in this Management Discussion and Analysis constitute 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 Absolute's services and products, and other expectations, intentions and plans contained in this analysis that are not historical fact. When used in this analysis, the words "plan," "expect," "believe," and similar expressions generally identify forward-looking statements. These statements reflect 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 readers should understand that Absolute Software cannot offer assurance that the forward-looking statements contained in this analysis will be realized.

STRATEGIC UPDATE OF ABSOLUTE SOFTWARE CORPORATION (TSX-V: ABT) ("ABSOLUTE" OR THE "COMPANY")

Absolute's mission is to be the industry standard in Computer Theft Recovery ("Anti-Theft") and Secure Asset Tracking, and ultimately to become recognized as a world leader in security solutions for computers and other connected devices. Success in this mission can be measured in a number of ways including patented technology and relationships with industry leaders. However, the key non-financial measure of success toward this mission relied upon by management is the number of subscribers to Absolute's solutions.

In fiscal 2005, Absolute signed approximately 300,000 new and renewal sales contracts, up from approximately 170,000 in fiscal 2004. With this, subscriptions under contract climbed to 440,000 at June 30, 2005 from 300,000 at June 30, 2004. As the key objective in its industry standard mission, Absolute is targeting one million subscriptions under contract within the next two years. Management believes that recent trends support Absolute's initiative to execute on this objective:

- Laptop sales in North America are growing and have been taking market share from desktops;
- Laptop thefts in the U.S. were estimated at 600,000 in calendar 2003 (Source: Safeware, The Insurance Agency);
- Laptop storage space is increasing, resulting in an increasingly significant amount of sensitive data being stored on laptops;
- Demand for Absolute's solutions is increasing with security concerns, which have become of greater importance in North American markets;
- Management believes Absolute's solutions are well-positioned in the market, as they are backed by a theft recovery guarantee and are designed to provide maximum security with minimum investment and resource overhead; and
- Absolute's Computrace solutions are becoming a standard in the U.S. education market (both kindergarten through grade 12 ("K-12") and Higher Education ("Hi-Ed") where laptop programs are becoming a key part of the curriculum.

OVERVIEW OF KEY OPERATIONAL STRATEGIES

During fiscal 2005, Absolute reached a number of milestones. From a financial perspective, these milestones generated a 50% increase in sales contracts to \$13.2 million for fiscal 2005, and translated into Absolute's first fiscal year of positive cash from operations, with four successive quarters of positive cash flow. These milestones were achieved as a result of four key strategies:

Embedded Strategy:

In February 2005, Lenovo (previously IBM) began embedding Absolute's Computrace software into the chip-level basic input output system ("BIOS") of all new ThinkPad™ computers. Absolute is also pursuing this "Embedded Strategy" with other original equipment manufacturers ("OEMs"). Management believes that the Embedded Strategy with Lenovo was a key component in achieving record level sales contracts of \$5.0 million in the fourth quarter of fiscal 2005. On July 13, 2005 Absolute announced two significant contracts and increased pipeline activity as a direct result of the Embedded Strategy with Lenovo. In addition, on August 9, 2005 Absolute announced Gateway as the second OEM to adopt the Embedded Strategy. This relationship is expected to contribute to sales growth beginning in the second quarter of fiscal 2006.

For the past five years, Absolute has pursued the Embedded Strategy with OEMs, such as Lenovo, DELL, HP, Gateway and Apple. With Lenovo and Gateway now adopting the Embedded Strategy, management is confident that others will follow. Under the Embedded Strategy, the OEM embeds Absolute's Computrace technology into the BIOS of every laptop shipped. Unlike Absolute's standard Computrace software, the BIOS-embedded version is shipped in a non-active state. Absolute and the OEM generate revenue when end user customers subscribe to Absolute's solutions and activate the Computrace software in the BIOS. This method of generating revenue is unchanged from that of Absolute's traditional business model.

The OEM partner realizes benefits from the Embedded Strategy by improving the security of their computers, and through additional revenue and margin from selling subscriptions to Absolute's solutions. The expected benefits gained by Absolute include:

Enhanced persistence	Embedding Computrace in the BIOS maximizes the software's persistence, or the ability of the software to survive unauthorized attempts to remove it. This enhances the value of Absolute's Computer Theft Recovery and Secure Asset Tracking solutions.
OEM sales and marketing support	To management's knowledge, Computrace is the first third-party software embedded into the BIOS on Lenovo's computers. Being embedded is considered strategic to the OEM and is expected to come with increased top-down marketing and sales support from the OEM for Absolute's solutions.
Customer demand	The BIOS-embedded version of Computrace is expected to translate into increased consumer demand as it improves the effectiveness with which Absolute's solutions address their needs.
Competition	There is very little space available in the BIOS, access to which Absolute believes is critical to successfully address the market. Accordingly, being embedded in the BIOS creates a competitive advantage.

OEM Sales Strategy:

Absolute's distribution model is focused on generating sales through OEMs – primarily Lenovo, DELL, HP, Gateway, Toshiba and Apple. Management believes these distribution channels are a competitive advantage for Absolute. Growing sales through these distribution channels has traditionally been done through grass roots sales efforts by Absolute's sales and marketing teams. However, in order to maximize penetration of the market through these channels, increased top-down OEM support is required. The Embedded Strategy is one of Absolute's current strategies for developing stronger top-down relationships, and other initiatives are also under way. While these initiatives will likely require an increase in marketing costs to Absolute, they are expected to be integral to continuing the Company's sales growth.

During fiscal 2005, Absolute was able to increase top-down support by leveraging OEM education market strategies and through its Embedded Strategy with Lenovo. As a result, sales contracts through OEM channels increased to \$9.9 million or 75% of sales contracts in fiscal 2005, up from \$6.1 million or 69% of sales contracts in fiscal 2004, and up from \$5.4 million or 55% in fiscal 2003.

Patent Strategy:

Absolute has 12 issued and two pending patents, one of which was filed during fiscal 2005. The patents cover the Computrace technology and use of that technology in theft recovery and asset tracking using unique electronic serial numbers over a number of communication methods. Maintaining the patent portfolio is a key element for securing the Company's industry leader position, and for keeping competitors from entering Absolute's OEM sales channels. In addition, the patent portfolio can provide an alternate licensing revenue stream.

During fiscal 2005, Absolute began enforcing its patents. As a result, at least six competitors either exited the business, acquired licenses to Absolute's patent portfolio (whereby they will pay a per unit license fee on all future sales of their own products), or became resellers of Absolute's technology. Currently there are three competitors with whom Absolute may have to carry out court proceedings should they not be willing to either cease selling their infringing product, or to enter into patent licensing agreements with Absolute.

Target Market Strategies:

Absolute is currently focused in three key markets and is implementing strategies to increase penetration in each market:

Corporate Market	Estimated to represent the largest potential market for Absolute's services. Sales contracts in the corporate market accounted for 46% of sales in fiscal 2005, up from 43% in fiscal 2004, and down from 73% in fiscal 2003. Management expects the Embedded Strategy to generate sales growth in the corporate market. On July 13, 2005, Absolute announced a significant corporate sales contract for U.S. \$218,000, which management believes illustrates the importance of BIOS solutions in the corporate market space.
Education Market	Represents a significant market opportunity to which Absolute's solutions are particularly well suited. With the proliferation of computer assisted learning throughout North America, there are an increasing number of laptops being placed in the hands of K-12 and Hi-Ed students. School administrators are required to keep an accurate inventory of these computers, protect them against theft and provide replacements for those that are stolen. Absolute's solutions provide a comprehensive and cost effective method of addressing these issues and for ensuring the laptop programs are able to continue. As such, management believes Computrace is becoming a "must have" solution for the education market. Absolute's K-12 customer base now includes 9 of the top 15 school districts in the U.S. Sales contracts to educational institutions have increased annually, and represented 47% of sales in fiscal 2005, 50% in fiscal 2004 and 27% in fiscal 2003.

Consumer Market

Consumers purchase approximately 1/3 of all laptops sold in North America. In fiscal 2004, Absolute began distribution of a consumer theft recovery offering (Computrace Personal) through Toshiba, and in December 2004 Absolute launched Computrace Personal through 230 CompUSA outlets, followed by distribution through DELL's e-commerce site in January 2005. As a result, consumer market sales contracts grew to 7% of sales in fiscal 2005, from 4% in fiscal 2004 and 0% in fiscal 2003. However, in order to penetrate the consumer market in a meaningful way, management believes a strong brand name is required. As a result, on June 27, 2005, Absolute announced that it acquired rights to use the LoJack® brand name in connection with its consumer offering. LoJack is a well known brand in the U.S. market and is expected to provide the branding strength required to grow Absolute's consumer business toward 20% of total sales contracts over the next two years. LoJack is a registered trademark of LoJack Operating Company L.P. ("LoJack"). The new "LoJack for Laptops" consumer offering was launched in August 2005 and is expected to contribute to sales growth in the first quarter of fiscal 2006.

BUSINESS MODEL

Absolute sells its computer asset tracking (AbsoluteTrack) and theft recovery (ComputraceComplete, ComputracePlus and LoJack for Laptops) solutions primarily in a subscription for services model. Subscription sales contracts are available with service terms of 1 to 5 years, with non-refundable payment in full due upon signing. While the entire value of the sales contract is due at the beginning of the contract, the revenue from the contract is recorded as deferred revenue on the balance sheet and amortized to income ratably over the contract term, starting in the month following the invoice date.

Once the customer installs the Computrace software, or activates the BIOS version, Computrace begins its automatic and silent communication with Absolute's monitoring center on a regular basis during the contract term, and provides the data required to support the purchased service. All of Absolute's services are enabled by the Computrace software with updates performed automatically through the monitoring center. Upon completion of the contract term, the customer may renew the subscription, or purchase a new subscription for a new replacement computer.

During the service term, customers can access Absolute's secure customer website to obtain inventory and reporting information about their entire computer population. If theft recovery services were purchased, should the computer be stolen Absolute's theft recovery team will attempt to use the information provided by the Computrace software to locate and coordinate with local law enforcement officials to retrieve the stolen computer for the customer. Absolute's software contains persistence qualities that increase the likelihood that the stolen computer will contact Absolute's monitoring center post-theft – a feature that is enhanced through Absolute's Embedded Strategy.

Absolute's service infrastructure, persistence technology and proven theft recovery track record have enabled the Company to stand behind its products with a manufacturer's limited warranty. Introduced in the fourth quarter of fiscal 2004, certain products now include the peace of mind offered by the knowledge that if Absolute cannot recover their stolen computer, the customer may receive up to \$1,000. This is primarily a corporate and education market offering, and in order to qualify for a guarantee payment, the customer must meet specific requirements which include the timely filing of a police report.

Large customers are also able to purchase a software license to Absolute's offerings. This is a more traditional software model with the customer installing the monitoring servers required to communicate with the Computrace software. In this model, the customer purchases a software license and annual maintenance contract. At present, this license model represents a small portion of total sales as it is made available only to facilitate sales to customers with policies requiring in-house operation of the service. For these sales, revenue from the software license is recognized upon delivery of the software, while the maintenance revenue is deferred and amortized over the maintenance term.

A majority of costs associated with sales contracts are incurred at the beginning of the sales contract term. A portion of these costs, including commissions and warranty accruals, are capitalized as deferred contract costs, which are then charged to income pro-rata with the sales contracts to which they relate. The remaining up-front costs, such as research and development, patent enforcement, direct marketing and selling, training, delivery and customer support, are all charged to income in the period incurred. During the remaining service term, cash costs associated with the contracts are generally less than the initial costs, and include maintenance of the monitoring center and reporting website, upgrades to the Computrace software, and recovery services.

Since revenue from sales contracts is deferred, revenue and gross margin will lag behind sales contracts and operating cash flow. As a result, management relies upon sales contracts and operating cash flow as the leading indicators of performance and profitability. Refer to the Net Loss section below for further analysis of this metric. Sales contracts are not a measure under Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. See Note 8 to the Consolidated Financial Statements for GAAP reconciliation of deferred revenue to sales contracts and revenue. In general, achieving positive cash from operations through generating sales contracts in excess of operating costs is expected to translate into profitability as GAAP revenues begin to reflect increased sales contract levels.

OUTLOOK

With the milestones reached in fiscal 2005, management believes Absolute is well positioned to achieve its near term objective of one million subscribers. To achieve this goal, Absolute will continue executing on the key operational strategies identified above, in particular, the Embedded Strategy.

In order to capitalize on new opportunities and to increase OEM top-down support and penetration into target markets, Absolute will be increasing its selling and marketing, support, and research and development costs. In fiscal 2006, Absolute will also continue enforcing its patents, which could result in an increase in general and administrative costs. As a result, operating costs are expected to increase into fiscal 2006 and headcount is expected to climb from 79 employees at June 30, 2005 to 100 employees by June 30, 2006.

Sales contracts are expected to continue to grow at a faster pace than expenses, and accordingly, Absolute expects to continue generating positive cash from operations throughout fiscal 2006. Further, generating cash positive operations throughout fiscal 2006 is expected to translate into GAAP profitability during fiscal 2007, as the deferred revenue balances become sufficient to produce revenue in excess of operating expenses.

SELECTED ANNUAL INFORMATION (IN MILLIONS, EXCEPT PERCENT AND PER SHARE DATA)

	2005	2004	2003
Sales Contracts	\$ 13.23	\$ 8.83	\$ 9.83
% increase (decrease)	50%	(10%)	57%
Revenue	8.57	7.62	6.68
% increase	12%	14%	39%
Net loss before income taxes	(2.69)	(3.21)	(4.41)
Net loss after income taxes	(2.51)	(1.30)	(4.41)
Basic and diluted loss per share	(0.14)	(0.08)	(0.25)
Cash from operations	1.34	(2.97)	(1.28)
Total assets	22.31	12.98	13.51
Warranty accrual	1.25	0.19	-
Deferred revenue	16.34	11.74	10.71
Long-term debt	-	-	-
Cash dividends declared per share	-	-	-

REVENUE AND SALES CONTRACTS

Revenue for fiscal 2005 of \$8.6 million increased 12% from \$7.6 million in fiscal 2004 and 28% from \$6.7 million in fiscal 2003. With contract terms averaging nearly 30 months, revenue will reflect the changes in sales contracts over the past three fiscal years. In general, with a 30-month average contract term, 15% to 20% of current fiscal year sales contracts are recognized in revenue in the year of sale.

Sales contracts for fiscal 2005 were \$13.2 million, a 50% increase from \$8.8 million in fiscal 2004 and a 35% increase from \$9.8 million in fiscal 2003. The increase in fiscal 2005 reflects the Q4-2004 launch of the Company's guaranteed theft recovery services, increased penetration in the U.S. education market, expansion of distribution channels in the consumer market, and, in Q4-2005, the Embedded Strategy with IBM/Lenovo. The decrease in fiscal 2004 sales compared to fiscal 2003 was primarily due to the decline in the U.S. dollar relative to the Canadian dollar as over 90% of sales contracts are generated in U.S. dollars. In U.S. dollar terms fiscal 2005 sales contracts were U.S. \$10.6 million, a 62% increase from U.S. \$6.6 million generated in both fiscal 2004 and 2003.

Sales contracts are recorded at the value received by Absolute from either the reseller or directly from the customer. The value received from the reseller is net of reseller discounts. Accordingly, the retail price paid for Absolute's solutions is higher than the amount reported by Absolute as sales contracts. The average selling price per unit has declined since fiscal 2003 due to an increase in asset tracking sales (which are a lower priced product) and the decline in the U.S. dollar. Unit and average selling information is detailed in the following table:

	2005	2004	2003
Total subscriptions in units	299,383	169,717	185,979
Average selling price	\$ 44.18	\$ 52.04	\$ 52.88
Average contract term	27 months	28 months	26 months

OPERATING EXPENSES

Analysis of Total Operating Expenses (in millions, except employee data):

	2005	2004	2003
Cost of goods sold	\$ 2.37	\$ 2.28	\$ 1.99
Sales and marketing	4.47	4.12	4.55
Research and development ("R&D")	1.66	2.29	2.67
General and administration ("G&A")	2.44	2.20	1.88
Total operating expenses	\$ 10.94	\$ 10.89	\$ 11.09
Number of employees at year end	79	75	84
Units under contract	0.44	0.30	0.23

Absolute continues to closely manage expenses as the Company strives to achieve its cash positive financial objectives. As a developer of software and a provider of computer Theft Recovery and Secure Asset Tracking, there is a certain amount of infrastructure required to advance and maintain the technology, and to ensure high quality services. Accordingly, much of the cost structure is fixed in the short term, and as a result total operating costs are relatively stable across each of the above fiscal years.

Over 50% of total operating expenses are payroll related, which is consistent with standards in the software industry. On a specific line item basis, cost of goods sold has grown relatively consistent with revenue growth, resulting in a gross margin of 72% in fiscal 2005, compared to 70% in both fiscal 2004 and 2003. Changes in sales and marketing costs are consistent with changes in sales contract levels in each period. R&D costs have declined since fiscal 2003 and 2004 reflecting elimination of certain non-performing product lines and headcount reduction in Q4-2004. However, the R&D costs associated with the core offerings have remained stable and are expected to begin to increase in fiscal 2006. G&A costs have increased to \$2.4 million in fiscal 2005 as a result of professional fee increases associated with patent enforcement and increasing public company requirements.

OTHER INCOME (EXPENSE)

Absolute earns interest income on its cash resources beyond immediate operating requirements. These cash balances are invested in treasury bills, bankers' acceptances and investment grade bonds. Interest income has declined from fiscal 2003 levels due to a reduction in interest rates and a reduction in the average cash balance. This trend started to reverse at the end of fiscal 2005 following an increase in cash balances through completing a \$5.5 million private placement on March 22, 2005 and generating positive cash from operations for the year.

Absolute reports foreign exchange gains and losses primarily on the translation of cash and receivable balances carried in U.S. dollars. Generally, foreign exchange losses will be reported in periods where the U.S. dollar declines relative to the Canadian dollar. The U.S. dollar devalued relative to the Canadian dollar in fiscal 2005 relative to prior year periods and as a result, foreign exchange losses have increased in the current period. At June 30, 2005, Absolute held U.S. dollar cash balances of U.S. \$1.0 million and receivable balances of U.S. \$3.2 million, compared to U.S. \$0.8 million and U.S. \$1.8 million respectively at June 30, 2004. Approximately 40% of Absolute's costs are denominated in U.S. dollars, and excess cash balances are converted to Canadian dollars on a regular basis. Accordingly, Absolute does not consider its foreign exchange risk to be significant with respect to current operations, and does not enter into hedge contracts. However, as over 90% of sales contracts are denominated in U.S. dollars, changes in the value of the U.S. dollar relative to the Canadian dollar will impact the rate of sales contract growth in future periods.

NET LOSS BEFORE INCOME TAXES

The Company's net loss before income taxes for the year ended June 30, 2005 was \$2.7 million, a 16% reduction compared to the pre-tax loss of \$3.2 million for fiscal 2004, and a 39% reduction compared to the restated pre-tax loss of \$4.4 million for fiscal 2003. The year over year decreases are the result of increased revenue from sales contract growth, and the relatively stable operating cost structure.

Since inception, Absolute has invested in establishing the market for Computer Theft Recovery and Secure Asset Tracking, building an effective distribution channel, and evolving its product offering. This investment has resulted in the Company operating in a net loss position to date. The primary strategy for becoming profitable is to grow revenue through sales contract growth. Consistently operating at a cash positive level is expected to result in income statement profitability as revenue begins to reflect increasing sales contract levels. With sales contracts increasing 50% in fiscal 2005, versus a 10% decline in fiscal 2004, the model is starting to produce cash positive operations and is favourably widening the gap between the net loss and cash generated from operations. The following table illustrates the difference between sales contracts and revenue, and the net loss and cash from operations that results primarily from deferral of sales contracts:

	2005	2004	2003
Sales contracts	\$ 13.23	\$ 8.83	\$ 9.83
Revenue	8.57	7.62	6.68
Net (loss) before income taxes	(2.69)	(3.21)	(4.41)
Cash from (used in) operations	1.34	(2.97)	(1.28)

NET LOSS AFTER INCOME TAXES

In fiscal 2005, the Company reported a net loss after income taxes of \$2.5 million or \$0.14 per share, compared to \$1.3 million or \$0.08 per share in fiscal 2004 and a restated net loss of \$4.41 million or \$0.25 per share in fiscal 2003. The increase in fiscal 2005 over 2004 is due to future income tax benefits of \$0.2 million in fiscal 2005 compared to \$1.9 million in fiscal 2004. Absolute began recording the future period benefits from current and prior period losses in fiscal 2004, and increased the benefited value of its tax losses based on Q4-2005 results. Absolute has estimated tax losses of \$8.2 million in Canada and U.S. \$10.6 million in the U.S. available to reduce taxable income in future years. The total potential tax assets available to Absolute are \$12.9 million, of which \$2.1 million are recognized on its balance sheet as future income tax assets. These assets are not expected to begin to result in income tax charges on the income statement until the Company generates net income for GAAP purposes in future periods.

CASH FROM (USED IN) OPERATIONS

In fiscal 2005, Absolute achieved its first year of cash positive operations and was cash positive for four successive quarters as a result of sales contract growth. Cash from operations for fiscal 2005 totaled \$1.3 million compared to cash used in operations for fiscal 2004 of (\$2.97) million and for fiscal 2003 of (\$1.28) million. With operating expenses relatively stable, the level and timing of sales contracts and the collection of the resulting receivables are the primary determinants of the cash provided by or used in operations.

LIQUIDITY AND CAPITAL RESOURCES

Cash position

Absolute is in a strong financial position, with the financial resources necessary to fund its operating and capital requirements and to execute on its growth strategies. At June 30, 2005 Absolute carried cash, cash equivalents and short-term investments of \$11.9 million, up from \$5.7 million at June 30, 2004 and from \$8.8 million at June 30, 2003. The increase is a result of both cash positive operations for fiscal 2005, and the completion of a private financing on March 22, 2005 (see the Shareholders' Equity section below).

Accounts receivable

Accounts receivable balances increased to \$4.1 million at June 30, 2005 from \$2.7 million at June 30, 2004 and \$1.6 million at June 30, 2003. The increase is primarily a result of greater sales contract activity in Q4-2005. Sales contracts tend to be concentrated toward the end of each quarter, and as a result, receivables balances tend to average between 75% and 85% of sales for the quarter. Receivable balances at June 30, 2005 were 82% of Q4-2005 sales contracts, compared to 83% at June 30, 2004 and 72% at June 30, 2003. A majority of receivable balances at year end are generally expected to be collected during the first quarter of the next fiscal year.

At June 30, 2005, 3 resellers had a receivable balance representing more than 10% of total receivables, compared to one customer at each June 30, 2004 and 2003. With the majority of Absolute's sales through OEM partners, payment tends to be reliable, while days sales outstanding tend to track between 75 and 90 days.

DEFERRED CONTRACT COSTS

Direct contract costs are capitalized as deferred contract costs on the balance sheet and are charged to income over the term of the contract to which they relate. This policy was adopted in fiscal 2004 as discussed in the Accounting Changes section below. Direct contract costs include expenditures incurred at the beginning of the contract period (commissions, prepaid service fees, prepaid contract insurance, direct delivery costs, etc.), plus the amount of warranty costs estimated over the life of each contract.

At June 30, 2005, deferred contract costs of \$3.2 million (20% of deferred revenue) are up from \$1.7 million (15% of deferred revenue) at June 30, 2004 and \$1.3 million (12% of deferred revenue) at June 30, 2003. The increases as a percent of deferred revenue are primarily due to the introduction in Q4-2004 of products that include Absolute's guaranteed theft recovery service. These products accounted for over 60% of new sales contracts in fiscal 2005. Management expects deferred contract costs as a percent of deferred sales contracts to climb with increases in guarantee sales, and to stabilize at approximately 25% of the deferred sales contract balance.

ACCRUED WARRANTY

With the introduction of guaranteed theft recovery services, Absolute began recording a warranty provision for potential guarantee payments under the program. Warranty costs for each sales contract are estimated at between 15% and 20% of the sales contract value based on Absolute's experience across its 440,000 subscriptions under contract. A portion of this warranty exposure is underwritten with third-party contract insurance, and the remainder is included in accrued warranty. The corresponding expense is recorded as deferred contract costs and charged to cost of sales over the term of each contract. The accrued warranty accrual is reduced as payments are incurred for insurance premiums and net warranty claims.

Accrued warranty increased to \$1.3 million at June 30, 2005 from \$185,000 at June 30, 2004, reflecting a full year of the guarantee in fiscal 2005. During fiscal 2005, a total of \$0.4 million was paid in insurance premiums and guarantee claims, net of insurance proceeds, compared to warranty accrual on new sales of \$1.4 million. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. Experience to date suggests that a change in the accrual rate is not required. Management expects the Embedded Strategy to enable the Company to achieve actual warranty costs below the current estimated accrual rate over time.

DEFERRED REVENUE

Deferred revenue represents sales contracts invoiced for which the non-refundable payment is received or due to be paid in full, but for which the revenue is not yet recognizable under GAAP. Refer to Note 8 of the fiscal 2005 Notes to Consolidated Financial Statements for a reconciliation of deferred revenue to sales contracts and revenue.

	2005	2004	2003
Current portion of deferred revenue	\$ 8,067,891	\$ 6,184,801	\$ 6,060,289
Long term portion of deferred revenue	8,274,109	5,558,499	4,652,297
Total deferred revenue	\$ 16,342,000	\$ 11,743,300	\$ 10,712,586

Deferred revenue grew to \$16.3 million at June 30, 2005 on fiscal 2005 sales contracts of \$13.2 million. Future sales contracts will continue to increase this balance and will have a corresponding effect on revenue in future periods. This provides a high degree of visibility for future period revenues, with the current portion showing the amount that will be included in revenue over the next twelve months. The fiscal 2005 current portion has increased 30% over the fiscal 2004 current portion. Therefore, if sales contracts remain at the same levels as fiscal 2005, revenue would be expected to increase by 30% in fiscal 2005.

ACCOUNTING CHANGES

During fiscal 2004, accounting changes for deferred contract costs and deferred revenue were implemented. Both of these changes required restatement of prior period results, including the prior quarters reported on during fiscal 2004. In management's opinion, these changes improve financial reporting and were implemented in accordance with GAAP. See Note 3 to the fiscal 2004 Notes to the Consolidated Financial Statements for further information regarding these changes. The accounting change to deferred revenue relates to translation of U.S. dollar deferred revenue balances. Deferred revenue balances are translated into Canadian dollars at historical exchange rates in effect at the time of booking the underlying sales contracts. Previously the Company had used period end rates to translate deferred revenue.

In addition, prospective accounting changes were adopted that affected fiscal 2004. The changes were adopted in accordance with new accounting standards for shareholder loans and stock-based compensation. As a result, effective July 1, 2003, shareholder loans have been recorded in shareholders' equity instead of assets, and stock options granted since July 1, 2003 are now valued using the Black-Scholes model and expensed in the statement of operations.

QUARTERLY OPERATING DATA

FISCAL 2005 (in millions of dollars except per share data)

	Q4	Q3	Q2	Q1
Sales contracts	\$ 5.03	\$ 2.70	\$ 2.27	\$ 3.22
Revenue	2.34	2.21	2.15	1.87
Operating expenses	3.12	2.81	2.39	2.63
Net (loss)	(0.54)	(0.51)	(0.47)	(1.00)
Basic and diluted (loss) per share	(0.03)	(0.03)	(0.03)	(0.06)
Cash from operations	0.31	0.21	0.24	0.56

FISCAL 2004 (in millions of dollars except per share data)

	Q4	Q3	Q2	Q1
Sales contracts	\$ 3.20	\$ 1.78	\$ 1.41	\$ 2.44
Revenue	1.84	1.93	1.95	1.90
Operating expenses	2.84	2.75	2.65	2.65
Net income (loss)	0.94	(0.72)	(0.81)	(0.70)
Basic and diluted income (loss) per share	0.06	(0.04)	(0.05)	(0.04)
Cash (used in) operations	(0.77)	(0.42)	(1.09)	(0.69)

FOURTH QUARTER 2005 MANAGEMENT DISCUSSION AND ANALYSIS

Since fiscal 2004, the Company has increased the level of sales contracts to the North American education market, where the purchasing cycle is concentrated in the months of June through August. This has introduced an element of seasonality to the timing of sales contracts, resulting in higher levels in the first and fourth quarters. This seasonality is expected to be mitigated through growth in the corporate sector with the Embedded Strategy, and growth in the consumer sector with the launch of LoJack for Laptops. Conversely, revenue and operating expenses tend to be more stable due to the deferral of sales contracts and due to a significant portion of expenses relating to labour and overhead costs.

During the fourth quarter of fiscal 2005, the Company generated record level sales contracts of \$5.0 million, a 57% increase over Q4-2004 and an 86% increase over Q3-2005. The increase is primarily due to the Embedded Strategy launched with IBM/Lenovo in Q3-2005 and the continued penetration in the education market. Revenue has continued to trend up quarter over quarter during fiscal 2005 due to increases in sales contracts throughout fiscal 2005.

The Company reported a net loss of \$0.5 million in Q4-2005 compared to net income of \$0.9 million in Q4-2004 as a result of a \$1.9 million future income tax benefit recorded in Q4-2004. Removing the tax impact, the Q4-2005 loss actually declined from Q4-2004, reflecting the increased revenue for the period.

The Company reported four successive quarters of positive cash from operations in fiscal 2005, compared to four quarters of cash used in operations for fiscal 2004. The transition to positive cash flow is primarily a result of the 50% sales contract growth in fiscal 2005.

SHAREHOLDERS' EQUITY AND OUTSTANDING SHARE DATA

On March 22, 2005, Absolute closed a private placement of 4.4 million common shares at a share price of \$1.25 per share for gross proceeds of \$5.5 million. As part of the private placement, 440,000 Agents' Warrants were issued, which are exercisable into one common share per Warrant at an exercise price of \$1.40 and expire on September 22, 2006.

Despite generating positive cash from operations the financing was completed in order to improve the overall strength of Absolute's balance sheet, and to fund working capital for increased marketing and sales initiatives aimed at capitalizing on growth opportunities. A strong balance sheet position is important for OEM partners and customers as Absolute builds on its growth strategy.

At June 30, 2005, Absolute had shareholders' equity of \$3.1 million. In evaluating the shareholders' equity, management believes it is important to consider the \$16.3 million of deferred revenue carried on the balance sheet. This represents prepaid and non-refundable revenue, which management expects to deliver high margins when recognized as much of the associated contract costs are already included in the operating deficit.

The Company's common shares trade on the TSX Venture Exchange (TSX-V:ABT), and at June 30, 2005, the Company had 20,985,773 (21,025,773 at August 15, 2005) fully issued and outstanding common shares. In addition to the 440,000 Agents' Warrants outstanding, at June 30, 2005 a total of 2,309,860 (2,387,360 at August 15, 2005) common stock options were granted and outstanding under the Company's Employee Share Option Plan. The options have a weighted average strike price of \$0.81 per share, and a weighted average term to expiry of 2.7 years. During fiscal 2005, a total of 451,156 stock options were granted to employees at an average strike price of \$1.17. Of these, 79,666 were granted to insiders at an average strike price of \$1.24 per share.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management considers the Company's accounting for sales contracts, deferred contract costs, warranty accruals and future tax assets to be critical accounting policies. An understanding of the accounting policies for these items is important for meaningful analysis of Absolute's business.

Sales contracts and deferred contract costs represent sales receipts and expenses that are generated or incurred at the start of each sales contract. These items are capitalized on the balance sheet as deferred revenue or deferred contract costs, and are recognized as revenue or expense ratably over the contract term.

Warranty accruals require management estimates of the amount of warranty claims that will be paid over the life of each sales contract. The value of the accrued warranty estimate is capitalized with deferred contract costs and charged to cost of sales ratably over the contract term. Accrual estimates are established based on Absolute's experience with loss and recovery rates, and are reviewed for reasonableness based on actual experience on a regular basis.

The Company has future tax assets of \$12.9 million, of which \$2.1 million have been recognized on the balance sheet at June 30, 2005. The remaining future tax assets have not been recognized in the financial statements. Each reporting period, management assesses the likelihood of realizing future tax assets. Where management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized, the estimated realizable value of the future tax asset is recognized on the balance sheet. The net income or loss after income taxes can vary widely in periods where tax assets are recognized.

CONTRACTUAL COMMITMENTS

The Company does not have minimum purchase commitments and does not have significant contractual commitments beyond its leased premises, LoJack branding agreement (see subsequent events) and fulfillment of services under its sales contracts. The Company leases 11,574 square feet of office space in Vancouver, Canada, which expires on December 31, 2010. The Company has contractual commitments to perform computer theft recovery and automated monitoring services under its prepaid sales contracts, the costs for which are included in operating expenses.

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011 to 2015	Total
LoJack Agreement	153,175	153,175	153,175	153,175	153,175	765,875	1,531,750
Lease Commitments	\$ 223,282	\$ 324,072	\$ 324,072	\$ 324,072	\$ 162,036	\$ —	\$ 1,357,534
Total Commitments	\$ 376,457	\$ 477,247	\$ 477,247	\$ 477,247	\$ 315,211	\$ 765,875	\$ 2,889,284
Sales Contract Revenue Earned	\$ 8,067,891	\$ 5,122,546	\$ 2,568,988	\$ 464,094	\$ 118,481	\$ —	\$ 16,342,000

OFF BALANCE SHEET ARRANGEMENTS

The Company has not entered into any off balance sheet arrangements.

RELATED PARTY TRANSACTIONS

The Company does not generally enter into related party transactions. The only material related party transactions relate to loans to directors and employees agreed to as part of financing arrangements during the fiscal years ended June 30, 1999 and 2000. During fiscal 2004, the Company began classifying the loans in shareholders' equity in accordance with new accounting rules under GAAP.

SUBSEQUENT EVENTS

On June 27, 2005, Absolute announced a 10 year branding agreement with LoJack whereby Absolute acquired the rights to the "LoJack" brand name for its consumer offering. The contract commenced July 1, 2005 and continues until June 30, 2015. Payments are due on July 1 of each year under the agreement and include a U.S. \$25,000 annual fee, plus royalty prepayments of U.S. \$100,000, the first of which were made July 1, 2005. The prepayments are drawn down at the royalty rate of U.S. \$1.00 per unit of "LoJack For Laptops" sold, with any additional amounts payable to LoJack on a quarterly basis. In addition, under the agreement, Absolute issued 500,000 warrants for purchase of common shares at an exercise price of \$2.00 per share. The Warrants have a five year life and vest at the rate of 100,000 warrants per year commencing on June 30, 2006, and expire at the earlier of termination of the contract, two years after vesting, and June 30, 2010. Both Absolute and LoJack have termination rights under the agreement based on specific performance measures. As this agreement commenced on July 1, 2005, there are no amounts recorded in the fiscal 2005 Consolidated Financial Statements.

Up to the date of this report, August 15, 2005, there have not been any significant subsequent events or transactions that would require disclosure in, or adjustment to, the Consolidated Financial Statements as at June 30, 2005.

EVALUATION AND EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES

The Company has established and maintains disclosure controls and procedures over financial reporting. The certifying officers have evaluated the effectiveness of the Absolute's disclosure controls and procedures as of June 30, 2005 and have concluded that such procedures are adequate and effective to ensure accurate and complete disclosures in annual filings.

RISKS AND UNCERTAINTIES

The Company is selling and developing products and services for new and emerging markets and, as a result, faces a number of risks, many of which are outlined below.

Microsoft Operating Systems	Absolute has designed the majority of its services to operate on certain generations of Microsoft Windows operating systems. The development by Microsoft of new versions of Windows or other operating systems, the market adoption of these or other operating systems developed by other vendors, may have an adverse effect on Absolute's business if it is not able to adapt its technology to be compatible with these new operating systems.
Operating Environment	The Computrace software that enables this product operates in a potentially hostile environment. In addition, Absolute's services rely upon connection to Absolute's monitoring center. If the computer is prevented from making, or is not able to make, a connection, Absolute will not have an opportunity to assist in recovering the stolen computer. If Absolute is unable to successfully demonstrate to customers that its software agent will call in, it may affect Absolute's ability to sell the theft recovery portion of the products offered to customers.
Product Errors	The software technology enabling Absolute's software services is complex and the related application software may contain errors or defects, especially when first introduced or when new versions are released. Any errors that are discovered after commercial release could result in loss of revenues or delay in market acceptance, diversion of development resources, damage to Absolute's reputation, increased service and warranty costs and liability claims.
Competition	It is also possible that new competitors will enter the marketplace. Several potential competitors are marketing or have announced the development of computer products in direct competition with Absolute. In addition, as Absolute develops new services, the Company may begin competing against companies with whom it did not previously compete. Such competitors may be able to develop and expand their services more quickly, adapt more swiftly to new or emerging technologies and changes in customer requirements, take advantage of acquisition and other opportunities more readily, and devote greater resources to the marketing and sale of their services and products than Absolute. Accordingly, the entry of new competitors could have a material adverse effect on Absolute's business, financial condition and results of operations.
Dependence on Distribution Channels	Absolute generates a substantial portion of its revenue through OEM channels and its sales strategy is built upon Absolute's ability to continue to maintain and grow its reseller channels. If unable to access end customers through its reseller channels, Absolute will have to change its sales strategy and may not be able to grow at the rates anticipated.
Emerging Markets and Technology	The market for Absolute's products is still emerging and continued growth and demand for, and acceptance of, these products remains uncertain. In addition, other emerging technology and markets may impact the viability of the market for Absolute's products. Absolute's continued success will depend upon its ability to keep pace with technological and marketplace change and to introduce, on a timely and cost-effective basis, new and enhanced products that satisfy changing customer requirements and achieve market acceptance. There can be no assurance that Absolute will be able to respond effectively to changes in technology or customer demands. Moreover, there can be no assurance that Absolute's competitors will not develop competitive products, or that any such products will not have an adverse effect upon Absolute's business, financial condition or results of operations.
Reliance on Key Personnel	Absolute's future performance depends in part upon attracting and retaining key technical, sales and management personnel. There can be no assurance that Absolute can retain these personnel, and the loss of the services of Absolute's key employees could have a material adverse effect on Absolute's business, operating results and financial condition.
Foreign Exchange	The Company's reporting and functional currency is the Canadian dollar. However, over 90% of the Company's sales compared to approximately 40% of costs are denominated in U.S. dollars. As a result, the Company is exposed to fluctuations in the Canadian and U.S. dollar exchange rate for which it does not enter into foreign exchange hedges. Should the Canadian dollar continue to appreciate relative to the U.S. dollar, then it could impede Absolute's ability to meet its Canadian dollar sales contract growth targets and to achieve cash positive operations.

MANAGEMENT'S RESPONSIBILITY

The management of Absolute Software Corporation is responsible for the preparation of the accompanying Consolidated Financial Statements and the preparation and presentation information in the Annual Report. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in Canada, and are considered by management to present fairly the financial position and operating results of the Company.

The Company maintains various systems of internal control to provide reasonable assurance that transactions are appropriately authorized and recorded, that assets are safeguarded, and that financial reports are properly maintained to provide accurate reliable financial statements.

The Company's audit committee is comprised entirely of non-management directors and is appointed by the Board of Directors annually. The committee meets periodically with the Company's management and independent auditors to review consolidated financial statements and the independent auditor's report. The audit committee reported its findings to the Board of Directors, who have approved the consolidated financial statements.

The Company's independent auditors, Deloitte & Touche LLP, have examined the consolidated financial statements and their report follows.



John Livingston
Chief Executive Officer
August 15, 2005



Rob Chase
Chief Financial Officer
August 15, 2005

AUDITORS' REPORT

To the Shareholders of Absolute Software Corporation

We have audited the consolidated balance sheets of Absolute Software Corporation as at June 30, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Vancouver, British Columbia
July 22, 2005

CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004

(Expressed in Canadian dollars)

	Notes	2005	2004
ASSETS			
CURRENT			
Cash and cash equivalents		\$ 11,778,412	\$ 3,020,331
Short-term investments		133,809	2,649,130
Accounts receivable		4,132,004	2,644,723
Prepaid expenses and deposits		190,379	160,227
Current portion of deferred contract costs	(Note 4)	1,626,747	896,060
Current portion of future income tax assets	(Note 6)	469,537	266,165
		18,330,888	9,636,636
DEFERRED CONTRACT COSTS	(Note 4)	1,570,438	810,558
PROPERTY AND EQUIPMENT	(Note 5)	790,407	884,797
FUTURE INCOME TAX ASSETS	(Note 6)	1,619,604	1,645,941
		\$ 22,311,337	\$ 12,977,932
LIABILITIES			
CURRENT			
Accounts payable and accrued liabilities		\$ 1,617,019	\$ 728,421
Current portion of accrued warranty	(Note 7)	546,287	79,538
Current portion of deferred revenue	(Note 8)	8,067,891	6,184,801
		10,231,197	6,992,760
ACCRUED WARRANTY	(Note 7)	707,776	105,533
DEFERRED REVENUE	(Note 8)	8,274,109	5,558,499
		19,213,082	12,656,792
SHAREHOLDERS' EQUITY			
Share capital and other equity	(Note 9(b))	35,967,000	30,795,346
Contributed surplus	(Note 9(c))	6,784,681	6,665,707
Loans to directors and employees	(Note 9 (d))	(630,660)	(624,204)
Deficit		(39,022,766)	(36,515,709)
		3,098,255	321,140
		\$ 22,311,337	\$ 12,977,932
COMMITMENTS	(Note 11)		
SUBSEQUENT EVENT	(Note 12)		

See accompanying Notes to the Consolidated Financial Statements.

Approved on behalf of the board:



John Livingston
Director



Ian Reid
Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

Years ended June 30, 2005 and 2004
(Expressed in Canadian dollars)

	Notes	2005	2004
REVENUE			
Monitoring revenue		\$ 8,228,648	\$ 7,315,181
Installation services, licensing fees and other revenues		339,081	300,741
		\$ 8,567,729	\$ 7,615,922
COST OF GOODS SOLD			
Monitoring, support and recovery		1,473,062	1,298,358
Technical support and product maintenance		898,967	976,934
		2,372,029	2,275,292
GROSS MARGIN		6,195,700	5,340,630
EXPENSES			
Sales and marketing		4,473,530	4,116,531
Research and development		1,662,106	2,287,975
General and administration		2,435,124	2,203,429
		8,570,760	8,607,935
OPERATING LOSS		(2,375,060)	(3,267,305)
OTHER EARNINGS (EXPENSE)			
Interest and other income		132,571	165,152
Interest and bank charges		(10,412)	(17,157)
Foreign exchange loss		(437,647)	(92,126)
		(315,488)	55,869
LOSS FOR THE YEAR BEFORE INCOME TAXES		(2,690,548)	(3,211,436)
FUTURE INCOME TAXES	(Note 6)	177,035	1,912,106
NET LOSS FOR THE YEAR		(2,513,513)	(1,299,330)
DEFICIT, BEGINNING OF YEAR		(36,515,709)	(35,230,105)
INTEREST AND EXCHANGE ON LOANS TO DIRECTORS AND EMPLOYEES			
		6,456	13,726
DEFICIT, END OF YEAR		\$ (39,022,766)	\$ (36,515,709)
BASIC AND DILUTED LOSS PER COMMON SHARE			
	(Note 2 (m))	\$ (0.14)	\$ (0.08)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING			
		17,530,708	16,057,844

See accompanying Notes to the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended June 30, 2005 and 2004
(Expressed in Canadian dollars)

	2005	2004
OPERATING ACTIVITIES		
Net loss for the year	\$ (2,513,513)	\$ (1,299,330)
Items not involving cash		
Amortization	359,958	353,295
Share-based compensation to employees	118,974	57,222
Future income taxes	(177,035)	(1,912,106)
Change in non-cash operating working capital		
Accounts receivable	(1,487,281)	(1,061,026)
Prepaid expenses and deposits	(30,152)	73,729
Deferred contract costs	(1,490,567)	(375,787)
Accounts payable and accrued liabilities	888,598	(21,860)
Accrued warranty	1,068,992	185,071
Deferred revenue	4,598,700	1,030,714
	1,336,674	(2,970,078)
INVESTING ACTIVITIES		
Property and equipment purchased	(265,568)	(252,014)
Disposal of short-term investments	2,515,321	1,216,597
	2,249,753	964,583
FINANCING ACTIVITIES		
Common shares issued on exercise of options	152,765	125,670
Common shares and warrants issued on private placement, net of share issue costs	5,018,889	-
	5,171,654	125,670
NET CASH INFLOW (OUTFLOW)	8,758,081	(1,879,825)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,020,331	4,900,156
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 11,778,412	\$ 3,020,331
COMPOSITION OF CASH AND CASH EQUIVALENTS:		
Cash	\$ 2,271,433	\$ 1,013,835
Cash equivalents	9,506,979	2,006,496
	\$ 11,778,412	\$ 3,020,331
SUPPLEMENTAL CASH FLOW INFORMATION:		
Income taxes paid	\$ -	\$ -
Interest and bank charges paid	\$ 10,412	\$ 17,157

See accompanying Notes to the Consolidated Financial Statements.

Years ended June 30, 2005, 2004

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

The principal business activities of the Company since incorporation under the Company Act (British Columbia) on November 24, 1993 are the development, marketing and support of computer security and asset management services and products. All of the Company's services and products are powered by its proprietary and patented Computrace software system. The Company markets its services and products both through original equipment manufacturers and resellers and directly to customers including corporations, governments, educational institutions and consumers. While the Company's products are available internationally through resellers in the U.K., Australia and South Africa, a majority of its sales are generated in North America. The Company completed its initial public offering ("IPO") in March 2000 and trades on the TSX Venture Exchange under the symbol ABT.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of presentation

The consolidated financial statements include the accounts of Absolute Software Corporation and its wholly owned subsidiaries, Absolute Software Inc. (U.S.), Computer Recovery, Inc. (U.S.) and 609713 B.C. Limited. All intercompany balances and transactions have been eliminated.

(b) Foreign currency translation

Monetary assets and liabilities denominated in a foreign currency have been translated into Canadian dollars at rates of exchange in effect at the balance sheet date. Non-monetary assets and revenue and expense items are translated at rates prevailing when they were acquired or incurred. Exchange gains and losses arising on translation of assets and liabilities denominated in foreign currencies are included in operations.

(c) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent liabilities, and the reported amounts of revenues and expenses during the period. Assessment of the carrying values of allowances for accounts receivable and loans to employees and directors, calculation of stock-based compensation, accrued warranty, and the valuation of future income tax assets are significant areas requiring the use of estimates. Actual results may differ from the estimates used in the preparation of the financial statements.

(d) Cash and cash equivalents and short-term investments

Cash equivalents have terms to maturity from the date of acquisition of not more than three months. Short-term investments are recorded at the lower of cost and market value.

(e) Deferred contract costs

The Company sells service contracts with monitoring and theft recovery terms ranging from 12 to 60 months. Direct contract costs associated with service contracts are deferred and amortized ratably over the contract term. Deferred contract costs are generally comprised of prepaid sales commissions, accrued warranty expenses, contract insurance premiums and prepaid service fees.

(f) Property and equipment

Property and equipment are carried at cost less accumulated amortization. Amortization is calculated using the declining balance method at the following annual rates:

Asset	Rate
Automobile	30%
Computer equipment	40%
Computer software	100%
Office equipment	20%
Furniture and equipment	20%
Trade show equipment	30%

Leasehold improvements are amortized over the term of the lease.

(g) Future income tax assets and income taxes

The Company follows the asset and liability method for accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases (temporary differences). Changes in the net future tax asset or liability are included in operations.

Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period that includes the substantive enactment date. Future income tax assets are evaluated and if realization is not considered more likely than not, a valuation allowance is provided for all or a portion of the value.

(h) Deferred revenue and revenue recognition

A majority of the Company's sales contracts are for subscriptions for computer theft recovery and secure asset tracking services with subscription terms ranging from 12 to 60 months. These sales are comprised of multiple elements, including software, monitoring service and maintenance, which are not separable for accounting purposes. As a result, the revenue from these contracts is carried as deferred revenue on the balance sheet and is amortized to monitoring revenue ratably over the contract term. Amortization of the sales contract to revenue commences in the month after the sale occurs.

A portion of the Company's sales are license software contracts whereby the customer purchases the software and performs the monitoring service, rather than having the Company perform the monitoring. For these sales contracts, the software and maintenance elements are separable and as a result, the license software element is recognized upon delivery, while the maintenance element is deferred and amortized ratably over the maintenance term.

The Company sells a majority of its sales contracts through original equipment manufacturer and reseller partners primarily in North America. The contracts are recorded at the net sale amount received from the reseller. For direct sales, the sales contract is recorded at the sale amount received direct from the customer.

Foreign denominated sales contracts are recorded at the Canadian dollar equivalent based on the average exchange rate in the month the sale occurred. The deferred revenue value is not adjusted for changes in the foreign exchange rate that occur after the month of sale.

(i) Accrued warranty and guarantee

During the fourth quarter of the year ended June 30, 2004, the Company introduced a recovery guarantee on certain of its theft recovery products. The Company insures against half of the recovery guarantee value by purchasing annual contract liability insurance. The insurance cost and potential warranty liability is estimated based on the Company's historic computer theft and theft recovery rates, and is accrued at the beginning of the contract term. Insurance payments and payments under the guarantee are offset against the accrual. The remaining accrual balance is adjusted for experience on a periodic basis.

(j) Loans to directors and employees, and prospective change in accounting policy

Effective July 1, 2003, the Company adopted the new recommendations of the CICA for presentation of loans to employees and directors that are secured by shares of the Company. Despite management's intent to collect on the loans, the new standards require loans to directors and employees to be classified as shareholders' equity unless certain criteria are met. The Company has applied this accounting policy prospectively from the effective date. For prior periods, the loans to directors and employees were classified as assets on the consolidated balance sheets.

(k) Stock-based compensation and prospective change in accounting policy

The Company has a stock-based compensation plan, which is described in Note 9 (e). Effective July 1, 2003, the Company adopted the amended recommendations of the CICA Handbook Section 3870, "Stock-based Compensation and Other Stock-based Payments". Under the amended standards of this Section, the fair value of all stock-based awards granted are estimated using the Black-Scholes model and are recorded in operations over their vesting periods. As allowed under the CICA Handbook recommendations, the Company has applied this accounting change prospectively from the effective date. As a result, a total of \$118,974 (2004 - \$57,222) of stock compensation cost for stock options granted subsequent to July 1, 2003 is recorded in operations for the year ended June 30, 2005 and credited to contributed surplus (Note 9 (c)).

For prior periods, the Company had provided note disclosure of pro forma net loss and pro forma loss per share as if the fair value based method had been used to account for share purchase options granted to employees, directors and officers after July 1, 2002. This application of the CICA Handbook Section 3870 continues to be applied to stock options granted between July 1, 2002 and June 30, 2003. The Company discloses the pro forma effect of accounting for these awards under the fair value based method in Note 9 (f).

Stock-based compensation expense is determined using an option pricing model assuming no dividends are to be paid, a weighted average volatility of the Company's share price of 77% to 110% (2004 - 104% to 109%), an annual risk free interest rate of 3.25% (2003 - 3.25%) and expected lives of four years (2004 - four years).

(l) Research and development costs

Research costs are charged to expense in the year in which they are incurred. Development costs are deferred if they meet specific criteria, otherwise they are expensed as incurred. At June 30, 2005 and 2004, no development costs have been deferred.

(m) Loss per share

Basic net loss per share is calculated by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the period. For all periods presented, net loss available to common shareholders equates to net loss. Diluted earnings per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding assumes that the proceeds to be received on the exercise of dilutive stock options are applied to repurchase common shares at the average market price for the period.

The diluted loss per share does not differ from the basic loss per share as outstanding options are anti-dilutive. At June 30, 2005 there were 2,208,875 (2004 - 2,193,231) potentially dilutive stock options outstanding.

3. FINANCIAL INSTRUMENTS

(a) Fair values of financial statements

The carrying amounts of cash and cash equivalents, short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their fair values due to their short-term maturity.

(b) Foreign currency risk

Sales contracts billed in U.S. dollars by the Company are recorded at the exchange rate in effect at the time of sale, and are collected on standard trade payable terms. Excess U.S. dollar balances are converted to Canadian dollars on a regular basis. Accordingly, the Company does not consider the currency risk to be significant and does not enter foreign currency hedges. Further devaluation in the U.S. dollar relative to the Canadian dollar could impact the Company's ability to continue at current sales growth rates and attain cash positive operations as more than 90% of sales contracts are denominated in U.S. dollars. Forward foreign currency hedges are not entered into to manage this risk.

(c) Credit risk

The Company is subject to normal credit risk as a significant portion of its accounts receivables are from the world's leading computer manufacturers. Bad debt experience has not been significant. Cash and cash equivalents are held in high-quality financial instruments to mitigate exposure to credit risk.

4. DEFERRED CONTRACT COSTS

	2005	2004
Prepaid sales commissions	\$ 1,767,115	\$ 1,433,462
Accrued warranty and prepaid insurance costs	1,358,405	217,758
Other prepaid / accrued contract costs	71,666	55,398
	3,197,185	1,706,618
Less: Current portion	(1,626,747)	(896,060)
	\$ 1,570,438	\$ 810,558

5. PROPERTY AND EQUIPMENT

	2005		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 1,525,124	\$ 1,200,963	\$ 324,161
Furniture and equipment	621,665	477,475	144,190
Computer software	751,763	582,349	169,414
Office equipment	319,155	215,811	103,344
Leasehold improvements	129,862	103,787	26,075
Trade show equipment	48,985	35,972	13,013
Automobile	19,117	8,908	10,209
	\$ 3,415,671	\$ 2,625,265	\$ 790,406
	2004		
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 1,428,089	\$ 1,065,123	\$ 362,966
Furniture and equipment	621,665	445,251	176,414
Computer software	580,739	443,206	137,533
Office equipment	319,155	192,717	126,438
Leasehold improvements	129,862	79,883	49,979
Trade show equipment	48,985	31,351	17,634
Automobile	19,117	5,284	13,833
	\$ 3,147,612	\$ 2,262,815	\$ 884,797

6. FUTURE INCOME TAX ASSETS

Income tax expense for the years ended June 30, 2005 and 2004 differ from that calculated by applying statutory rates for the following reasons:

	2005	2004
Combined Canadian federal and provincial income tax recoveries at expected rate of 35.62%	\$ (958,373)	\$ (1,139,024)
Permanent differences	78,866	20,336
Losses not tax effected	22,825	304,086
Foreign losses tax effected at lower rates	100,970	55,279
Temporary differences not tax effected	1,441,592	759,323
Benefit of previously unrecognized tax losses	(862,915)	(1,912,106)
	\$ (177,035)	\$ (1,912,106)

The tax effect of the significant temporary differences that comprise future income tax assets and liabilities at June 30, 2005 and 2004 are as follows:

	2005	2004
Future tax assets (liabilities):		
Property and equipment	\$ 634,471	\$ 600,032
Deferred revenue	2,813,076	3,864,132
Operating loss carryforwards	7,326,785	6,893,194
Share issue costs	152,433	34,840
Scientific research and experimental development expenditure carryforwards	866,031	866,031
Unrealized foreign exchange loss	944,571	447,067
Other	141,580	200,983
Total future tax assets	12,878,947	12,906,279
Valuation allowance	(10,789,806)	(10,994,173)
Net future income tax assets	\$ 2,089,141	\$ 1,912,106

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period. During the year ended June 30, 2005, the Company recognized the benefit of \$177,035 (2004 - \$1,912,106) in previously unrecognized tax losses carried forward.

The Company has approximately \$8,200,000 of non-capital losses available for Canadian income tax purposes to reduce taxable income of future years that expire as follows:

Year ending June 30,	
2006	\$ 3,300,000
2007	2,400,000
2008	1,750,000
2009	750,000
	\$ 8,200,000

6. FUTURE INCOME TAX ASSETS (Continued)

The Company also has available unclaimed scientific research and experimental development expenditures of approximately \$2,450,000 that may be carried forward indefinitely and used to reduce future taxable income.

The Company has available federal and provincial scientific research and development investment tax credits of approximately \$450,000 that may be applied to reduce future tax liability. The investment tax credits expire in 2006 to 2012.

In addition, the Company has approximately U.S.\$10,590,000 of net operating loss carryforwards available for U.S. income tax purposes to reduce taxable income of future years that expire as follows:

(Amounts in U.S. dollars)

Year ending June 30,

2019	\$ 780,000
2020	540,000
2021	840,000
2022	1,470,000
2023	1,400,000
2024	5,530,000
2025	30,000
	\$ 10,590,000

7. ACCRUED WARRANTY AND GUARANTEE

During the year ended June 30, 2004, the Company began providing a theft recovery warranty with certain of its services and products, primarily available to enterprise customers. If a computer equipped with a product that includes the theft recovery is stolen, and the Company is unable to physically recover the stolen computer using its Computrace software system, or to delete the data on the stolen computer, then the customer may be eligible for a recovery warranty payment of up to \$1,000 during the first year of the service. In order to qualify for the warranty, the customer must comply with the Company's terms and conditions, including the filing of a police report. The amount of the warranty payment reduces in each subsequent year of service and is also limited by the value of the stolen computer.

The Company purchases contract liability insurance for each of its subscription sales contracts that include the theft recovery warranty. Under the terms of this insurance, the Company is eligible for insurance proceeds of up to 50% of the value of any warranty payments.

Upon signing each sales contract that includes the theft warranty, the Company estimates the cost of insurance premiums and potential warranty claims during the term of each contract. At present, the average rate of accrual is approximately \$5.00 per unit per year. This amount is estimated based on the Company's actual theft recovery and loss experience, and is accrued as a liability in the financial statements, with the debit being recorded in deferred contract costs and amortized to cost of sales over the term of the contract. At June 30, 2005 and 2004, the accrued warranty is as follows:

	2005	2004
Balance at the beginning of the year	\$ 185,071	\$ –
Warranty accrual on new sales contracts	1,433,683	225,677
Insurance premiums and warranty claims paid, net of insurance proceeds	(364,691)	(40,606)
	1,254,063	185,071
Less: Current portion	(546,287)	(79,538)
Balance at the end of the year	\$ 707,776	\$ 105,533

8. DEFERRED REVENUE

Deferred Revenue is comprised of invoiced sales contracts from current and prior periods that have yet to be recognized as revenue. Payment is due at the beginning of the sales contract term and is non-refundable. The sales contract value is amortized to revenue ratably over the term of each contract commencing in the first month following the invoice date. The following table provides a reconciliation of deferred revenue balances to sales contracts and revenue:

	2005	2004
Balance at the beginning of the year	\$ 11,743,300	\$ 10,712,586
Add: Sales contracts during the year	13,227,582	8,831,618
Less: Revenue recognized during the year	(8,567,729)	(7,615,922)
Less: Other adjustments	(61,153)	(184,982)
	16,342,000	11,743,300
Less: Current portion	(8,067,891)	(6,184,801)
Balance at the end of the year	\$ 8,274,109	\$ 5,558,499

9. SHAREHOLDERS' EQUITY

(a) Authorized

50,000,000 common shares, no par value

Unlimited preferred shares, Series A, voting, convertible, redeemable

(b) Issued

	Number of Shares	Number of Warrants	Amount
Common shares			
Balance at June 30, 2003	15,932,898	–	\$ 30,669,676
Shares issued on options exercised	314,500	–	125,670
Balance at June 30, 2004	16,247,398	–	30,795,346
Shares issued on options exercised	338,375	–	152,765
Shares issued on private placement (g)	4,400,000	–	5,310,271
Agents' Warrants issued on private placement (g)	–	440,000	189,729
Share issue costs on private placement	–	–	(481,111)
Balance at June 30, 2005	20,985,773	440,000	\$ 35,967,000

(c) Contributed surplus

In prior periods, upon cancellation of shares repurchased under issuer bids, contributed surplus was established based on the difference between the reduction in share capital at the imputed per share value, and the actual amount paid for the shares. For the years ended June 30, 2005 and 2004, contributed surplus was credited through recording stock compensation expense following adoption of the new CICA Handbook Section 3870 (see Note 2 (k)).

	2005	2004
Contributed surplus, beginning of year	\$ 6,665,707	\$ 6,608,485
Stock compensation expense recorded on stock options granted during the year	118,974	57,222
Contributed surplus, end of year	\$ 6,784,681	\$ 6,665,707

9. SHAREHOLDERS' EQUITY (continued)

(d) Loans to directors and employees

In prior periods, the Company provided certain Canadian dollar denominated loans and a U.S. dollar denominated loan to directors and employees of the Company to exercise share options in the completion of contractual arrangements entered into in fiscal years 1998 and 2000.

The Company does not generally provide loans, and no additional loans have been provided beyond those agreed to in fiscal 1998 and 2000. The June 30, 2005 carrying balance increase of \$6,456 (2004 - \$13,726) over the prior year was credited to deficit and relates solely to interest and exchange on the outstanding loans. The loans to directors and employees are secured by 836,744 common shares of the Company. The market value of the shares held as security for the loans was \$1,732,060 at June 30, 2005 (2004 - \$418,372).

The Canadian dollar loans totaling \$390,000 bear interest at the Bank of Canada's bank rate plus one percent per annum, calculated monthly on the principal balance with the interest and principal to be paid in full no later than December 31, 2006.

The U.S. dollar loan totaling U.S. \$312,550 bears interest at the rate of 6.46% per annum, calculated monthly on the principal balance with the full principal and interest payable on January 7, 2006. In 2002, the Company ceased recording interest on the U.S. dollar loans and took a valuation adjustment to reduce the carrying value of the U.S. dollar loan to U.S.\$71,607. During the current year, the maturity date for the U.S. dollar loan was extended from January 7, 2005 to January 7, 2006.

(e) Stock options

The 2001 Employee Share Option Plan provides that a maximum of 4,065,206 common shares may be allocated to participants. After adjusting for options exercised under the Plan, there are a total of 3,402,331 available to be allocated to participants under the Plan. The exercise price of each option equals the closing market price of the Company's shares on the day before the grant date, or if there is no sale on that date, the average of the closing bid and ask prices. The term of option grants will not exceed 10 years from the date of grant of the option. Generally, options are granted with a four-year vesting period (25% vesting on each anniversary date), and expire two years after each vesting date.

	June 30, 2005		June 30, 2004	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Share options outstanding, beginning of year	2,680,610	\$ 0.91	3,238,746	\$ 1.52
Exercised	(338,375)	0.45	(314,500)	0.40
Forfeited	(483,531)	1.95	(1,282,470)	2.34
Granted during the year	451,156	1.17	1,038,834	0.61
Outstanding, end of year	2,309,860	\$ 0.81	2,680,610	\$ 0.91

Exercise Prices	Options Outstanding at June 30, 2005			Options Outstanding at June 30, 2004	
	Number of Stock Options Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number of Stock Options Outstanding	Weighted Average Exercise Price
\$ 5.00	100,985	0.75	\$ 5.00	245,651	\$ 5.00
\$ 1.15 to 2.10	411,269	3.83	1.36	58,875	1.39
\$ 0.25 to 0.81	1,797,606	2.51	0.45	2,376,084	0.47
	2,309,860	2.66	\$ 0.81	2,680,610	\$0.91
Number of options exercisable	780,256		\$ 1.08	867,682	\$ 1.77

(f) Pro forma fair value stock-based compensation expense

The Company has adopted the amended recommendations of the CICA Handbook Section 3870 prospectively from July 1, 2003. Accordingly, the Company only recognized compensation expense for stock options granted to employees and directors commencing July 1, 2003. Had the Company determined compensation expense for options granted to employees and directors since adoption of the new stock-based compensation standard on July 1, 2002 based on the fair value method of accounting for stock-based compensation, the Company's pro forma loss and loss per share for the years ended June 30, 2005 and 2004 would have been as follows:

	2005	2004
Loss for the year	\$ (2,513,513)	\$ (1,299,330)
Additional employee compensation expense	(55,277)	(63,606)
Pro forma loss for the year	\$ (2,568,790)	\$ (1,362,936)
Pro forma basic and diluted loss per share	\$ (0.15)	\$ (0.08)

(g) Private placement

On March 22, 2005, the Company closed a private placement of 4,400,000 common shares at a price of \$1.25 per share for gross proceeds of \$5,500,000. In addition to issue costs, a total of 440,000 Agents' Warrants were issued as part of the private placement. Each warrant entitles the holder to acquire one common share at an exercise price of \$1.40 per share for a period of 18 months following the private placement. The warrants expire September 22, 2006. The fair value of each Agents' Warrant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 3.25%, dividend yield of 0%, expected life of four years, and volatility of 78%.

10. SEGMENTED INFORMATION

The Company carries on business in the computer security monitoring industry and all sales are made in this segment. Its activities are carried out in the United States, Canada and internationally through resellers in the United Kingdom, Australia and South Africa. For the year ended June 30, 2005, monitoring revenues in the United States were \$7,618,230 (2004 - \$6,610,456), in Canada were \$610,418 (2004 - \$564,395). Installation services, licensing fees and other revenues for the year ended June 30, 2005 were \$315,081 (2004 - \$204,204) in the United States, and \$24,000 in Canada (2004 - \$96,537). A majority of the Company's long-lived assets are located in Canada.

11. COMMITMENTS

The Company has future minimum payments under operating leases to December 31, 2010, and under a branding agreement (Note 12) as follows:

Year ending June 30,	
2006	\$ 376,457
2007	477,247
2008	477,247
2009	477,247
2010	315,211
Future years	765,875
	\$ 2,889,284

12. SUBSEQUENT EVENT

Subsequent to June 30, 2005, the Company issued 500,000 warrants in connection with a 10 year branding agreement entered with LoJack Operating Company L.P. whereby the Company acquired the rights to use "LoJack®" as a brand name for certain of its consumer theft recovery products, and as a descriptor for its enterprise products. Each warrant is exercisable for one common share at an exercise price of \$2.00 per share. The warrants vest 20% per year on June 30, 2006, 2007, 2008, 2009 and May 31, 2010. All unexercised warrants expire on the earlier of 2 years after the vesting date, June 30, 2010 or termination of the branding agreement. The value of the Warrants will be estimated using the Black-Scholes model and recorded in operations.

CORPORATE DATA

BOARD OF DIRECTORS

John Livingston

Chairman and Chief Executive Officer
Absolute Software Corporation
Vancouver, BC

Christian Cotichini*

Vancouver, BC

Terry Libin

Calgary, AB

Ian Reid**

Vancouver, BC

OFFICERS AND SENIOR MANAGEMENT

John Livingston

Chairman and Chief Executive Officer

Bob Chow

President and Chief Operating Officer

Phil Gardner

Chief Technology Officer

Rob Chase

Chief Financial Officer

Rich Cohen

Vice President, Sales

Ben Haidri

Vice President, Marketing and Business Development

AUDITORS

Deloitte & Touche LLP

Vancouver, BC

TRUST AGENT

CIBC Mellon Trust

www.cibcmellon.com
Toronto, ON

LEGAL COUNSEL

Lang Michener

Vancouver, BC

COMMON SHARES

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

ADDITIONAL INFORMATION

Rob Chase – Chief Financial Officer

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Les Jickling – Communications Manager

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Annual General Meeting

Absolute Software's Annual General Meeting will take place at 10:00 am (PST), Friday, December 16, 2005 at the Terminal City Club in Vancouver, BC.

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* Chairman of Compensation Committee

** Chairman of Audit Committee

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