

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 2004 Annual Report, in particular, the Management Discussion and Analysis, and the 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 quarterly report 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 quarterly report, 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.

PERFORMANCE OVERVIEW

Absolute continued to build on the momentum from strategies implemented in fiscal 2004, which included focusing on vertical markets, such as education, enhancing the product offering and value proposition, and expanding distribution channels. On the strength of these initiatives, Absolute achieved record sales contracts for the second consecutive quarter, generating first quarter fiscal 2005 (Q1'05) sales contracts of \$3.22 million in the three months ended September 30, 2004 – up 32% from \$2.44 million in the same quarter last year. In addition, also for the second straight quarter, sales contracts were in excess of total operating expenses. As a result, Absolute generated positive cash flow from operations in Q1'05 of \$563,000. Achieving sales contracts in excess of total expenses for back-to-back quarters, and cash positive operations are significant milestones for Absolute.

Absolute is working toward establishing PC Theft Recovery and Secure Asset Tracking as a rapidly growing market category, and being the recognized leader in this market. Management believes the strategies implemented and performance achieved in the past two quarters are bringing Absolute closer to achieving these goals. The main strategies impacting the first and fourth quarter sales contracts results were awareness from technology enhancements aimed at increased persistence, enhancing the value proposition, and implementing strategies to capitalize on opportunities in the U.S. education market. Management believes these initiatives have started a new growth trend for Absolute, and expects this trend to continue upon execution of further initiatives throughout fiscal 2005, including:

- ❖ Completion of technology persistence enhancements expected to launch in early calendar 2005;
- ❖ Expansion of PC manufacturer (PC OEM) distribution strategies to enterprise customers through Dell, IBM, HP, Gateway and Toshiba; and
- ❖ Launch of expanded consumer retail distribution strategies with strategic partners.

Absolute's persistence refers to the ability of Absolute's software to withstand unauthorized attempts to remove it. Given the nature of PC theft recovery services, Absolute continually innovates to ensure its software remains the most persistent software on the market. This is important for ensuring that Absolute is able to attain and retain the leadership position in the PC Theft Recovery and Secure Asset Tracking market. Currently, Absolute is working with industry leaders, such as Phoenix Technologies, Inc. and top tier PC OEMs, to build Absolute's software into the firmware of the computer. Besides significantly improving persistence, these initiatives are also aimed at making Absolute's software ubiquitous.

Absolute expects to make announcements during fiscal 2005 regarding developments with its strategic initiatives, including its education, consumer, persistence and distribution strategies. In October, 2004 Absolute announced one such advancement with respect to its education market strategy, which led to signing one of the top 5 U.S. school districts as a customer. Absolute's customer base now includes six of the top twelve U.S. school districts.

SELECTED FIRST QUARTER INFORMATION (in millions, except percent and per share data)
FOR THE THREE MONTHS ENDED SEPTEMBER 30,

	2004	2003 Restated**
Sales Contracts *	\$ 3.22	\$ 2.44
<i>% increase over the prior year period</i>	32%	6%
Revenue	1.87	1.90
<i>% (decrease) increase over the prior year period</i>	(1%)	41%
Net loss	(1.00)	(0.70)
Basic and Diluted loss per share	\$ (0.06)	\$ (0.04)

* Sales contracts are not a measure under Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. Accordingly, reconciliation to GAAP measures appears with the deferred revenue discussion below.

** Prior period financial data is restated to reflect retroactive application of new accounting policies adopted during fiscal 2004. Refer to "Accounting Changes" below for further information.

REVENUE AND SALES CONTRACTS

Revenue is a function of sales contracts. While sales contracts vary in length from 1 to 4 years, non-refundable payment in full is required at the start of the contract term. The revenues from sales contracts are collected in advance and recorded in the balance sheet as deferred revenue. The deferred revenue is then recognized as revenue on a straight-line basis over the term of each contract. With contract terms traditionally averaging around 30 months, the revenue for each period is generated by sales contracts signed over the three preceding years. As a result, an understanding of the accounting for sales contracts is critical to appropriately evaluating Absolute's results of operations.

Revenue for Q1'05 of \$1.87 million declined 1% from the prior year primarily due to a 10% reduction in sales contracts during fiscal 2004. However, revenue levels are expected to rise in the coming quarters due to the increased sales contract levels achieved in Q1'05 and Q4'04. If sales contracts continue at these levels or greater in future quarters, revenue will begin to approach this value of sales contracts. The unrecognized revenue from these sales contracts remains on the balance sheet in deferred revenue.

Following Q1'05 sales contracts of \$3.22 million, deferred revenue grew to \$13.13 million at September 30, 2004. New sales contracts throughout fiscal 2005 will continue to increase this balance and the resulting revenue. Of the September 30, 2004 balance, \$6.78 million is current, meaning that it will be recognized as revenue over the next twelve months.

A discussion of the continued depreciation in the U.S. dollar is also relevant when considering sales contract levels as over 90% of Absolute's sales contracts are generated in U.S. dollars. While this does not impact the revenue stream from existing sales contracts, it does impact the value of new contracts signed each period. For the first quarter of fiscal 2005, the Canadian dollar value of sales contracts of \$3.22 million increased 1% over the \$3.20 million achieved in Q4'04. However, in U.S. dollar terms the underlying business activity increase was higher, with Q1'05 sales contracts of US\$2.47 million increasing 5% over \$2.35 million in Q4'04 and 39% over US\$1.78 million in Q1'04.

OPERATING EXPENSES

Operating expenses refer to Absolute's overall operating cost structure. With the exception of certain direct contract costs, such as sales commissions, that are deferred and charged to expense ratably over the contract term, total operating expenses are treated as a period expense when incurred. Conversely, substantially all of the prepaid revenue from sales contracts in the period is deferred on the balance sheet and recognized as revenue over the contract term.

Analysis of Total Operating Expenses (in millions except unit data):
For the three months ended September 30,

	2004	2003 Restated**
Cost of goods sold	\$ 0.54	\$ 0.63
Sales and marketing	1.07	1.00
Research and development	0.41	0.50
General and administration	0.61	0.52
Total operating expenses	\$2.63	\$2.65
Units under contract	327,899	254,798

Absolute has built an infrastructure to support its operations, and it is expected that the cost structure has excess capacity to service significant increases in the number of units under contract with minimal cost increases. Accordingly, total operating costs remained relatively stable across the current and prior periods despite a 29% increase in the units under contract.

Efforts to streamline operations were undertaken at the end of fiscal 2004 through refocusing on Absolute's core products and reducing its workforce. Resources from these cost savings were reallocated toward marketing and administrative costs associated with strategic initiatives related to expanding channel marketing and distribution programs, and enhancing the product value proposition. Overall, total operating costs are expected to remain consistent with the prior year.

FOREIGN EXCHANGE GAINS AND LOSSES

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 increase in foreign exchange losses to \$263,000 for Q1'05 from \$5,000 for Q1'04 reflects the recent decline in the U.S. dollar, and an increase in U.S. dollar cash and receivable balances. At September 30, 2004, Absolute held U.S. dollar cash balances of US\$2.11 million and receivable balances of US\$1.89 million, compared to US\$1.45 million and US\$1.33 million respectively at September 30, 2003. Accordingly, a majority of the losses for Q1'05 are holding losses and could reverse if the U.S. dollar begins to strengthen relative to the Canadian dollar.

NET LOSS

The Company reported a net loss of \$1 million or \$0.06 per share in Q1'05, compared to a restated net loss of \$0.7 million or \$0.04 per share in the first quarter of fiscal 2004. The increased loss is primarily due to foreign exchange losses.

Since inception, Absolute has invested in establishing the market for PC Theft Recovery and Secure Asset Tracking, growing an effective distribution channel, and evolving its product offering. This investment has resulted in Absolute operating in a net loss position to date. While Absolute focuses on sound cost management, its current operating cost structure is required to support the business objectives and is thus relatively fixed in the near term.

Accordingly, the primary strategy for becoming profitable is to grow revenue through sales contract growth. However, as revenue from sales contracts is deferred and amortized over the 1 to 4 year term of each contract, there is a lag before increased sales contract levels are reflected in revenue. Conversely, a majority of the costs associated with new sales contracts are incurred and expensed in the current period. This is an important distinction given traditional software models would result in only the maintenance portion of sales contracts being deferred, achieving an improved match of revenue to expenses. Accordingly, as operating costs are expected to remain relatively stable, management focuses on the amount by which sales contracts exceed total operating costs as a key business metric for Absolute.

CASH FLOW

Absolute reported positive cash from operations in the first quarter of fiscal 2005 as a result of achieving sales contract performance in excess of total operating expenses in both the fourth quarter of fiscal 2004 and in Q1'05. These are the only two quarters in Absolute's history where this sales contract milestone has been achieved, which led to positive cash from operations for Q1'05 of \$563,000, compared to cash used in operations of \$691,000 in the same period last year.

In addition, with first quarter 2005 sales contracts of \$3.22 million exceeding total operating expenses for the period of \$2.63 million, management believes the Company is well positioned to generate positive cash from operations for fiscal 2005.

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. As at September 30, 2004 Absolute carried cash, cash equivalents and short-term investments of \$6.18 million, up from \$5.67 million at June 30, 2004. The cash balances are held in general operating bank accounts, while cash equivalents and short-term investments are held in treasury bills, bankers' acceptances and investment grade bonds.

ACCOUNTS RECEIVABLE

Accounts receivable balances reduced to \$2.39 million at September 30, 2004 from \$2.64 million at June 30, 2004. The reduced receivable balance reflects a reduction in the days sales outstanding to 73 days from 79 days at June 30, 2004. Un-collectable accounts do not tend to be an issue due to the level of sales generated through PC OEM and reseller partners.

DEFERRED CONTRACT COSTS

During fiscal 2004, Absolute changed its accounting policy to defer directly identifiable contract costs over the term of the contract to which they relate. This change was made to improve the matching of expenses with the corresponding revenue. As a result of the change, prior period results were restated on a consistent basis, which resulted in the deferral of commission expenses from the current and prior periods. In addition, other contract costs such as prepaid service fees to international service providers, contract insurance and accrued warranty costs for potential guarantee payments are included in deferred contract costs. The increase in deferred contract costs to \$2 million at September 30, 2004 from to \$1.71 million at June 30, 2004 is consistent with the relative increase in deferred revenue over the same period.

ACCRUED WARRANTY

With the introduction of the theft recovery guarantee in the fourth quarter of fiscal 2004, Absolute began recording a warranty provision for potential guarantee payments under the program. A portion of this warranty exposure is underwritten with third party contract insurance, and the remainder is accrued as a direct contract cost. The corresponding expense is recorded in deferred contract costs and amortized over the term of each contract. The accrued contract cost is reduced as warranty payments are incurred.

The current period increase in warranty accrual to \$0.41 million at September 30, 2004 from \$0.19 million at June 30, 2004 is due to additional sales of products that include the theft recovery warranty. Each period, management evaluates its guarantee payment experience and considers whether changes are required to the estimated warranty provision. Management expects the current persistence enhancement initiatives with Phoenix Technologies will enable Absolute to reduce its guarantee exposure 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. The following table provides a reconciliation of deferred revenue, incorporating the non-GAAP sales contracts measure.

DEFERRED REVENUE RECONCILIATION:

	Q1 / 2005 (millions)	Q1 / 2004 Restated" (millions)
Opening deferred revenue	\$ 11.74	\$ 10.71
New sales contracts	3.22	2.44
Recognized revenue	(1.87)	(1.90)
Exchange and other adjustments	0.04	-
Closing deferred revenue	\$ 13.13	\$11.25

While the Company has followed the policy of deferring and amortizing sales contract revenue over the contract term since inception, a change was adopted in fiscal 2004 for the method of translating 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. This improves reporting as it pegs the exchange rate based on the rate in effect when the sale was made, matching the rate in effect when the cash payment is due, and improving the visibility on the resulting revenue stream. As a majority of deferred revenue balances are denominated in U.S. dollars and the U.S. dollar declined significantly at the end of fiscal 2003, the resulting change was material, and retroactive restatement was required.

SHAREHOLDER DEFICIENCY

At September 30, 2004, Absolute is in a shareholder deficiency position of \$652,000 following the net loss reported for the period, despite generating positive cash from operations in Q1'05 and being in a strong cash position of \$6.18 million at September 30, 2004. In evaluating the shareholder deficiency, management believes it is important to consider the \$13.13 million of deferred revenue carried on the balance sheet. This represents prepaid and non-refundable revenue, which management expects to carry high margins as much of the associated contract costs are already included in the operating deficit.

ACCOUNTING CHANGES

As discussed above, accounting changes for deferred contract costs and deferred revenue were implemented during fiscal 2004. Both of these changes required restatement to 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.

In addition, prospective accounting changes were adopted, that affected the previously reported results for the first quarter of 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.

The effect of these changes is an (increase) decrease in net loss for the first quarter of fiscal 2004 as previously reported as follows:

	Q1'04
Prospective changes:	
General and administrative – (increase)	\$ (2,258)
Other income – (decrease)	(4,235)
Retroactive changes:	
Revenue – increase	143,839
Sales and marketing – decrease	60,824
Foreign exchange loss – decrease	14,460
Net loss – decrease	\$ 212,630
Loss per share – decrease	\$ 0.01

COMPANY INFORMATION AND OUTSTANDING SHARE DATA

The Company's common shares trade on the TSX Venture Exchange (TSX-V:ABT), and additional information about the company is available On-line at www.absolute.com and on SEDAR at www.sedar.com

At September 30, 2004 and October 29, 2004, the Company had 16,252,148 fully issued and outstanding common shares, and 2,680,735 common stock options granted and outstanding. The options have a weighted average strike price of \$0.91 per share, and a weighted average term to expiry of 3 years. During the first quarter, a total of 87,000 stock options were granted at a strike price of \$0.55 per share, of which 20,000 were granted to insiders.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management considers the Company's accounting for sales contracts, deferred contract costs 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, which averages approximately 30 months. A full discussion of sales contracts and deferred contract costs is included in the body of the Revenue and Sales Contracts, Deferred Contract Costs and Deferred Revenue sections of this management discussion and analysis.

The Company has future tax assets of \$12.91 million, of which \$1.91 million have been recognized in the balance sheet at September 30, 2004. 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 and fulfillment of its sales contracts. The Company leases 11,574 square feet of office space in Vancouver, Canada, which expires in May 2006 with option to renew for an additional 3 years. The remaining commitments under the lease total \$356,860, with \$160,587 due in the remainder of fiscal 2005 and \$196,273 due in fiscal 2006.

The Company has contractual commitments to perform computer theft recovery and automated monitoring services for its 328,000 computers under contract. Contract terms average approximately 30 months with payment due in full at the start of the contracts. The costs to conduct these services are included in the Company's operating expenses.

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.

The loans to directors and employees are secured by 836,744 common shares of the Company, and bear interest at rates ranging from the Bank of Canada's bank rate plus one percent per annum to 6.46% per annum. One of the loans also includes 10% recourse to the borrower in addition to the common shares held as security. Principal and interest payments are due upon maturity of the loans, which ranges from January 7, 2005 to December 31, 2006. During the fiscal year ended June 30, 2004, certain maturity dates for the loans were extended beyond those in the original terms.

A valuation adjustment was taken against one of the loans to directors and employees during the fiscal year ended June 30, 2002. However, the Company intends to collect on the loans to its fullest capability.

SUBSEQUENT EVENTS

Up to the date of this report, there have not been any significant subsequent events or transactions that would require disclosure in, or adjustment to, the consolidated financial statements as at September 30, 2004.

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. Please refer to Absolute's Management Discussion and Analysis included with its 2004 Annual Report for discussion of these risks.

Regards,



John Livingston
Chief Executive Officer

Consolidated Interim Financial Statements

The interim consolidated financial statements included herein dated September 30, 2004 have not been reviewed by the Company's external auditors, nor has the external auditors been involved in the preparation of these interim financial statements.

ABSOLUTE SOFTWARE CORPORATION

CONSOLIDATED BALANCE SHEETS

(Expressed in Canadian Dollars)

	As at	
	September 30,	June 30,
	2004	2004
	(unaudited)	(audited)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 4,443,714	\$ 3,020,331
Short-term investments	1,735,954	2,649,130
Accounts receivable	2,390,681	2,644,723
Prepaid expenses and deposits	123,563	160,227
Current portion of deferred contract costs	1,039,610	896,060
Current portion of future income tax assets	266,165	266,165
	<u>9,999,687</u>	<u>9,636,636</u>
DEFERRED CONTRACT COSTS	959,310	810,558
PROPERTY AND EQUIPMENT	845,264	884,797
FUTURE INCOME TAX ASSETS	1,645,941	1,645,941
	<u>\$ 13,450,202</u>	<u>\$ 12,977,932</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 564,189	\$ 728,421
Current portion of accrued warranty	166,403	79,538
Current portion of deferred revenue	6,782,734	6,184,801
	<u>7,513,326</u>	<u>6,992,760</u>
ACCRUED WARRANTY	242,439	105,533
DEFERRED REVENUE	6,346,231	5,558,499
	<u>14,101,996</u>	<u>12,656,792</u>
SHAREHOLDER'S (DEFICIENCY) EQUITY		
Share capital (Note 3(i))	30,797,192	30,795,346
Contributed surplus	6,693,527	6,665,707
Loans to directors and employees	(622,284)	(624,204)
Deficit	(37,520,229)	(36,515,709)
	<u>(651,794)</u>	<u>321,140</u>
	<u>\$ 13,450,202</u>	<u>\$ 12,977,932</u>

See accompanying Notes to Consolidated Interim Financial Statements

APPROVED BY THE BOARD OF DIRECTORS

"John Livingston"
John Livingston, Chairman and CEO

"Ian Reid"
Ian Reid, Director

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

	Three Months Ended September 30,	
	2004	2003
	(unaudited)	(unaudited and restated Note 2)
REVENUE		
Monitoring revenue	\$ 1,810,144	\$ 1,850,131
Installation services, licencing fees & other revenues	64,831	46,705
	<u>1,874,975</u>	<u>1,896,836</u>
COST OF GOODS SOLD		
Monitoring, support and recovery	270,854	303,655
Technical support and product maintenance	265,873	326,527
	<u>536,727</u>	<u>630,182</u>
GROSS MARGIN	1,338,248	1,266,654
EXPENSES		
Sales and marketing	1,069,821	997,013
Research and development	414,408	503,648
General and administration	611,953	517,785
	<u>2,096,182</u>	<u>2,018,446</u>
OPERATING LOSS	(757,934)	(751,792)
OTHER EARNINGS (EXPENSE)		
Interest and other income	22,673	56,860
Interest and bank charges	(4,472)	(4,241)
Foreign exchange gain (loss)	(262,867)	(5,407)
	<u>(244,666)</u>	<u>47,212</u>
LOSS FOR THE PERIOD BEFORE INCOME TAXES	(1,002,600)	(704,580)
FUTURE INCOME TAXES	-	-
NET LOSS FOR THE PERIOD	(1,002,600)	(704,580)
DEFICIT, BEGINNING OF PERIOD - restated (Note 2)		
Interest and exchange on loans to directors and employees	(1,920)	4,235
DEFICIT, END OF PERIOD	\$ (37,520,229)	\$ (35,930,450)
BASIC AND DILUTED LOSS PER COMMON SHARE		
	\$ (0.06)	\$ (0.04)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	16,249,716	15,945,966

See accompanying Notes to the Consolidated Interim Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

For the Three Months Ended September 30, 2004

1. Significant accounting policies

The accompanying unaudited consolidated financial statements do not include all information and footnote disclosures required for an annual set of financial statements under Canadian generally accepted accounting principals. In the opinion of management, all adjustments (consisting solely of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations and cash flows as at and for the three months ended September 30, 2004 have been included. Interim results for the three months ended September 30, 2004 and 2003 are not necessarily indicative of the results that may be expected for the fiscal year as a whole.

These interim consolidated financial statements include the accounts of Absolute Software Corporation and its wholly owned subsidiaries, Absolute Software Inc., Computer Recovery Inc., and 609713 BC Ltd. All intercompany balances and transactions have been eliminated. These interim financial statements follow the same accounting policies and methods of application as the most recent audited financial statements, and should be read in conjunction with the annual consolidated financial statements and notes thereto included in the Company's 2004 Annual Report for the fiscal year ended June 30, 2004.

2. Retroactive Accounting Changes

During the year ended June 30, 2004, management adopted an accounting change for the translation into Canadian dollars of deferred revenues denominated in United States dollars whereby such amounts are translated at historical exchange rates, in accordance with CICA Handbook Section 1650, "Foreign Currency Translation". Previously the Company had used period end exchange rates to translate deferred revenue.

In addition, during the year ended June 30, 2004, management adopted a new accounting policy to defer direct contract costs, such as sales commissions, and to charge them to income over the contract term along with the deferred revenue amounts to which they relate. This new policy improves the matching of direct contract costs, which had previously been expensed in the period incurred.

The above accounting changes have been applied retroactively, and accordingly, the Company has restated the prior period consolidated financial statements. The effect of these changes is an (increase) decrease in net loss for the prior year and as previously reported, as disclosed in the following table:

Revenue - increase	\$	143,839
Sales and marketing expenses - decrease		60,824
Foreign exchange loss - decrease		14,460
Change in loss - decrease	\$	219,123
Change in basic and fully diluted loss per share - decrease	\$	0.01

As a result of these changes and the effect of these changes on opening deficit, the deficit reported at June 30, 2003 decreased by \$301,622. In addition, closing deferred revenue increased at June 30, 2003 by \$1,029,209, and deferred contract costs at June 30, 2003 increased by \$1,330,831.

3. Share Capital

	Number of Shares	Amount
(i) Issued Common Shares:		
Balance at June 30, 2004	16,247,398	\$ 30,795,346
Common shares issued on exercise of options	4,750	1,846
Balance at September 30, 2004	16,252,148	\$ 30,797,192

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

For the Three Months Ended September 30, 2004

3. Share Capital (Continued)

(ii) 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 stock options exercised under the Plan, there are a total of 3,735,956 common shares available to be allocated to participants under the Plan. At September 30, 2004, the total share options outstanding were:

Share options outstanding at June 30, 2004	2,680,610
Add: share options granted during the period	87,000
Less: share options exercised during the period	(4,750)
Less: share options forfeited during the period	(82,125)
<u>Share options outstanding at September 30, 2004</u>	<u>2,680,735</u>

The options outstanding at September 30, 2004 have an average term to expiry of 3 years and an average exercise price of \$0.91 per share. As at September 30, 2004, there were 1,821,981 (2,170,500 at September 30, 2003) potentially dilutive stock options outstanding when compared to the period average stock price.

(iii) Pro forma fair value stock-based compensation expense:

The Company adopted the amended recommendations of the CICA Handbook Section 3870 prospectively from July 1, 2003, and has recognized compensation expense for stock options granted to employees and directors in the financial statements since this date. 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 loss and loss per share for the three months ended September 30, 2004 and 2003 would have been the pro forma amounts indicated in the table below.

	Three Months Ended September 30,	
	2004	2003
Loss reported for the period as reported	\$ (1,002,600)	\$ (704,580)
Pro forma adjustment	(13,980)	(17,257)
<u>Pro forma loss for the year</u>	<u>\$ (1,016,580)</u>	<u>\$ (721,837)</u>
<u>Pro forma basic and diluted loss per share</u>	<u>\$ 0.06</u>	<u>\$ 0.05</u>

The fair value of each stock option 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 110% for September 30, 2004 (106% for September 30, 2003).

4. Segmented Disclosures

The Company carries on business in computer tracking and security monitoring and all sales are made in this segment. Business is conducted in the United States, Canada and internationally through resellers in South Africa, the United Kingdom and Australia. For the three months ended September 30, 2004, total revenues in the United States were \$1,715,416 (2003 - \$1,689,235), and in Canada were \$113,489 (2003 - \$176,614).

BOARD OF DIRECTORS

John Livingston
Chairman, 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
Chief Executive Officer

Bob Chow
President and Chief Operating Officer

Phil Gardner
Chief Technology Officer

Rob Chase
Chief Financial Officer

Michael Anfield
Vice President, Recovery Services

Rich Cohen
Vice President, Sales

Ben Haidri
Vice President, Marketing and Business Development

Don Hughes
Area Vice President, Channel Sales

CORPORATE INFORMATION

Auditors

Deloitte & Touche LLP
Vancouver, BC

Trust Agent

CIBC Mellon Trust
www.cibcmellon.com

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

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* Chairman of Compensation Committee

** Chairman of Audit Committee