

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's objective is to drive the industry standard for computer "anti-theft" with its Computer Theft Recovery and Secure Asset Tracking solutions. With over 1,000 stolen computers successfully recovered, a guarantee backing up Absolute's ability to recover stolen computers, and over 350,000 computers under contract, management believes that the foundation is established and that Absolute is well positioned to be the industry "anti-theft" standard.

As an "anti-theft" solution, Absolute's primary focus is on laptop computers – which continue to grow annually and to capture market share from desktops due to their ease of use, expanded hard drive space, enhanced connectivity and attractive price points. The International Data Corp recently released estimates that laptop shipments would grow 11% to approximately 45 million world-wide in calendar 2005. The FBI estimates laptop thefts to be in the range of 3% to 5% per year. With the growing amount of information stored on laptops and increase in laptop use, management believes the time is right for Absolute's security solutions to reach a broader end market.

Absolute is executing on a number of key strategies to further its industry leadership position, and to create the opportunity to grow from over 350,000 computers under contract today to over one million in the next two years. These strategies have resulted in a 43% year over year increase in sales contracts for the six months ended December 31, 2004, with computers under contract growing from 253,600 at December 31, 2003 to 368,600 computers at December 31, 2004. The key strategic initiatives include:

- ❖ Enhancing the value proposition through built-in technology partnerships with the world's top computer manufacturers (OEMs);
- ❖ Targeting the U.S. education market as a key market verticals for Absolute's services;
- ❖ Leveraging technology partnerships to gain broad acceptance within the enterprise market; and
- ❖ Launching consumer retail distribution channels to increase market penetration in the consumer market.

Management believes the current initiatives have started a new growth trend for Absolute, and expects this trend to continue upon execution of further initiatives throughout fiscal 2005.

Built-in Strategy:

Management considers the built-in strategy a key component to achieving widespread adoption of Absolute's solutions. Absolute's technology was designed to enable computer manufacturers (OEMs) to build the Computrace software into the firmware (or BIOS) of the computer. Achieving built-in status is significant to Absolute as it:

- ❖ Enhances the persistence of the Computrace software, through moving it from a software application closer to a chip solution;
- ❖ Increases the value proposition for Absolute's services through improving the usability and effectiveness of the solutions, which management expects to translate to increased demand;
- ❖ Opens additional distribution channels and OEM support for marketing Absolute's solutions;

- ❖ Creates barriers to entry for competitors; and
- ❖ Establishes Computrace software as the industry standard for Computer Theft Recovery and Secure Asset Tracking.

Persistence of the Computrace software refers to the ability to withstand unauthorized attempts to remove it. Given the nature of computer 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 Computer Theft Recovery and Secure Asset Tracking market. Absolute is continuing to develop standalone solutions to enhance persistence in addition to working with other top tier computer OEMs and Phoenix Technologies, Inc., to build Absolute's software into the firmware of the computer.

On February 1, 2005, Absolute announced IBM as the first OEM to build-in Absolute's Computrace software. Commencing in February 2005, Absolute's Computrace software will begin shipping on every IBM T-Series ThinkPad, and customers will be able to opt-in for the most persistent Computer Theft Recovery and Secure Asset Tracking solutions on the market. As customers opt-in, Absolute and IBM will generate revenue through new sales contracts. Sales contracts from this initiative are expected to begin toward the end of fiscal 2005 as IBM launches its new ThinkPad lines, and as IBM and Absolute develop programs to create awareness and demand amongst IBM customers.

Education Market:

During the past year, Absolute has implemented campaigns targeted at the U.S. education market. The education market in the U.S. has become a key market vertical for Absolute as a result of new standards for one-to-one laptop programs for K-12 students across the U.S. Absolute's solutions provide educators with an effective solution for the security and reporting requirements introduced by these new laptop standards. With Absolute's Computer Theft Recovery and Secure Asset Tracking solutions, schools can protect their students and mobile computer equipment with a proven service to deter computer theft, a guaranteed theft recovery program, and an asset tracking system to audit the whereabouts of state-funded assets.

Absolute is seeing increased sales growth from the education market. During the second quarter Absolute signed an agreement to provide its Computer Theft Recovery and Secure Asset Tracking services to one of the top five school districts in the U.S., and now has 6 of the top 12 U.S. school districts as customers.

While the education market is expected to generate sales growth for Absolute, the education purchasing cycles have introduced a degree of seasonality to Absolute's sales contract performance. The primary purchasing periods for education customers tend to be in the summer months, during Absolute's first and fourth quarters. As a result, sales from education customers are expected to be higher during those periods.

Enterprise Market:

The enterprise market was traditionally strong for Absolute. However, in the past two years, this segment has slowed as many enterprise customers have been awaiting a Computrace version with an enhanced level of persistence. Absolute is currently implementing enhanced persistence solutions through proprietary software development, and through OEM built-in initiatives. As the marketing programs around these initiatives are launched, Absolute expects to see renewed demand from enterprise customers. In turn, this is expected to translate to increased enterprise business for fiscal 2006, and to offset the seasonality introduced by the education market.

Consumer Market:

During the second quarter, Absolute took strides to expand its presence in the consumer market by launching retail availability of Computrace® Personal through CompUSA's 230 nationwide retail outlets. Computrace Personal is Absolute's consumer version of its guaranteed computer theft recovery solution. Computrace Personal is now being marketed along with CompUSA's Technology Assurance

Program and is targeting consumer demand for laptop computers and the greater security needs inherent in mobile computers.

Absolute intends to expand its consumer strategy during calendar 2005, and expects that consumer programs will assist in offsetting the seasonality introduced by the education market.

Distribution Channels:

Absolute's core distribution strategy is to leverage relationships with the world's leading computer OEMs and value added resellers. As a result, over 80% of Absolutes sales contracts are generated through channel partners. OEM partners in particular are Absolute's most effective distribution partners as they are able to introduce Absolute's solutions at an early stage in the customer purchasing cycle. At present, Absolute's solutions are distributed by all the major OEMs, including Dell, IBM, HP, Toshiba, Gateway and Apple. Management believes that creating integrated marketing and sales programs with these OEM partners is a key step toward achieving wide-spread adoption of Absolute's solutions. Establishing a mutually beneficial relationship with these partners also provides additional barriers to entry for competitors.

Absolute is making progress on its strategies to expand OEM distribution channels as reflected in the increased sales contracts for fiscal 2005. In addition, new programs are being created on a continuous basis. As an example of recent progress, on February 1, 2005 Dell announced launch of its managed deployment services, which now includes Absolute's guaranteed computer theft recovery solutions as part of their security platform. Absolute expects this advancement to generate additional sales through awareness and demand created by being included as part of Dell's standard sales programs.

SELECTED SECOND QUARTER INFORMATION (in millions, except percent and per share data) FOR THE THREE AND SIX MONTHS ENDED DECEMBER 31,

	Three Months Ended		Six Months Ended	
	Dec'04	Dec'03 Restated**	Dec'04	Dec'03 Restated**
Sales Contracts *	\$ 2.27	\$ 1.41	\$ 5.50	\$ 3.85
<i>% increase over the prior year period</i>	61%	(42%)	43%	(18%)
Revenue	2.15	1.95	4.02	3.85
<i>% increase over the prior year period</i>	10%	37%	5%	39%
Net loss	(0.47)	(0.81)	(1.47)	(1.52)
Basic and Diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.09)	\$ (0.10)

* 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 Q2'05 of \$2.15 million increased 10% from \$1.95 million in the same quarter last year, and 14% from \$1.87 million last quarter. For the six months to December 31, 2004, revenue of \$4.02 million is up 5% from \$3.85 million last year. The increases are the result of the increased sales contract levels achieved in the last three quarters, which have averaged \$2.89 million per quarter. If sales contracts continue at these levels or greater in future quarters, revenue will begin to approach this new level of sales contracts. The unrecognized revenue from these sales contracts remains on the balance sheet in deferred revenue.

Second quarter sales contracts of \$2.27 million increased 61% over \$1.41 million in the same period last year, but decreased 30% from \$3.22 million in Q1'05. For the six months to December 31, 2004, sales contracts rose 43% to \$5.50 million from \$3.85 million last year. The overall increase from the prior year periods reflects the strategic initiatives discussed in the performance overview section above. The primary contributors are education market strategies, increased consumer business, and a general increase following the launch of guaranteed theft recovery services. The 30% decrease in sales contracts from Q1'05 is a result of the seasonality introduced by focusing on the education market. Absolute is also expanding its consumer and enterprise strategies to address the level of seasonality inherent in the education business.

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 six months of fiscal 2005, sales contracts increased 43% in Canadian dollars. However, in U.S. dollar terms, sales contracts are up 52% to U\$4.33 million from U\$2.85 million achieved in the same period last year. Accordingly, the underlying business has increased at a higher rate than is reflected in the Canadian dollar results.

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. For this reason, Absolute focuses on cash flow and sales contracts as a proxy for profitability.

Analysis of Total Operating Expenses (in millions except unit data):
For the three and six months ended December 31,

	Three Months Ended		Six Months Ended	
	Dec'04	Dec'03 Restated**	Dec'04	Dec'03 Restated**
Cost of goods sold	\$ 0.55	\$ 0.51	\$ 1.09	\$ 1.14
Sales and marketing	0.95	0.98	2.02	1.98
Research and development	0.34	0.58	0.75	1.08
General and administration	0.55	0.58	1.16	1.09
Total operating expenses	\$2.39	\$2.65	\$5.02	\$5.29

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 computers under contract with minimal cost increases. Accordingly, total operating costs remained relatively stable across the current and prior periods despite a 43% increase in sales contracts.

For the six months to December 31, 2004, total operating costs are down 5% from the prior year, reflecting efforts to streamline operations undertaken at the end of fiscal 2004 through refocusing on Absolute's core products and reducing its workforce. Resources from these cost savings were partially reallocated toward marketing and administrative costs associated with strategic initiatives related to expanding channel marketing and distribution programs, and enhancing the product value proposition. On an annual basis, total operating costs are expected to remain relatively 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 U.S. dollar devalued relative to the Canadian dollar in both the first and second quarters of fiscal 2005 from prior year periods. As a result, foreign exchange losses have increased in the current periods.

Foreign exchange losses increased to \$250,000 for Q2'05 from \$158,000 for Q2'04, and increased to \$512,000 for the six months to December 31, 2004 from \$164,000 in the same period last year. At December 31, 2004, Absolute held U.S. dollar cash balances of US\$785,000 and receivable balances of US\$1.49 million, compared to US\$855,000 and US\$1.37 million respectively at December 31, 2003.

NET LOSS

The Company reported a net loss of \$467,000 or \$0.03 per share in Q2'05, a 42% decrease from the restated net loss of \$812,000 or \$0.05 per share in the second quarter of fiscal 2004. For the six months to December 31, 2004, the net loss decreased 3% to \$1.47 million from \$1.52 million in the same period last year.

Since inception, Absolute has invested in establishing the market for Computer 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, the 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 proxy for profitability and a key business metric for Absolute.

CASH FLOW

Absolute reported positive cash from operations in both the first and second quarters of fiscal 2005 as a result of achieving sales contract performance in excess of total operating expenses in Q4'04 and Q1'05. These are the only two quarters in Absolute's history where this sales contract milestone has been achieved, which led to cash positive operations of \$243,000 in Q2'05 and of \$805,000 for the six months to December 31, 2004. This is a significant turn around from cash used in operations in the prior year of \$1.09 million in Q2'04 and \$1.78 million for the six months to December 31, 2003.

While year-to-date sales contracts exceed total operating expenses, for Q2'05, total sales contracts of \$2.27 million were less than total operating expenses of \$2.39 million. As a result, Absolute may not achieve cash positive operations in the third quarter of fiscal 2005. However, management expects sales contracts to be sufficient to achieve cash positive operations for the fiscal 2005 year.

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 December 31, 2004 Absolute carried cash, cash equivalents and short-term investments of \$6.40 million, up from \$5.67 million at June 30, 2004. Operating cash balances are held in general operating bank accounts, while excess cash balances are held in treasury bills, bankers' acceptances and investment grade bonds.

Working capital decreased to \$1.96 million at December 31, 2004 from \$2.64 million at June 30, 2004 primarily due to the increase in the current portion of deferred revenue. Excluding deferred revenue, working capital increased to \$8.93 million at December 31, 2004 from \$8.83 million at June 30, 2004.

Accounts receivable

Accounts receivable balances were reduced to \$1.82 million at December 31, 2004 from \$2.64 million at June 30, 2004. The receivable balance reduced primarily due to Q2'05 sales contracts being below Q1'05 and Q4'04 sales contracts, while the days sales outstanding increased to 82 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 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 \$2.19 million at December 31, 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 warranty accrual. The corresponding expense is recorded in deferred contract costs and amortized over the term of each contract. The accrued warranty accrual is reduced as warranty payments are incurred.

The current period increase in warranty accrual to \$453,000 at December 31, 2004 from \$185,000 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 built-in strategies aimed at increasing persistence 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
For the three and six months ended December 31,

	2004	Three Months 2003 Restated**	2004	Six Months 2003 Restated**
Opening deferred revenue	\$13,128,965	\$11,254,933	\$11,743,300	\$10,712,586
New sales contracts	2,271,120	1,408,793	5,495,348	3,851,430
Recognized revenue	(2,145,837)	(1,950,543)	(4,020,812)	(3,847,379)
Exchange and other adjustments	2,373	(70,046)	38,785	(73,500)
Closing deferred revenue	\$13,256,621	\$10,643,137	\$13,256,621	\$10,643,137

Deferred revenue grew to \$13.26 million at December 31, 2004 following sales contracts of \$5.5 million in the first six months of fiscal 2005. New sales contracts throughout fiscal 2005 will continue to increase this balance and the resulting revenue in future periods. This provides a high degree of visibility for

future period revenues. Of the December 31, 2004 deferred revenue balance, \$6.97 million is current, meaning that it will be included in revenue over the next twelve months.

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 December 31, 2004, Absolute is in a shareholder deficiency position of \$1.09 million following the net loss reported for the current period, despite generating positive cash from operations for the year to date and being in a strong cash position of \$6.40 million at December 31, 2004. In evaluating the shareholder deficiency, management believes it is important to consider the \$13.26 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 three and six months ended December 31, 2003 as previously reported as follows:

	Three Months Dec'03	Six Months Dec'03
Prospective changes:		
General and administrative – (increase)	\$ (13,646)	\$ (15,903)
Other income – (decrease)	(76)	(4,311)
Retroactive changes:		
Revenue – increase	203,291	347,130
Sales and marketing – (increase)	(88,556)	(27,732)
Foreign exchange loss – (increase)	(371,023)	(356,563)
Net loss – (increase)	\$ (270,010)	\$ (57,379)
Loss per share – (increase)	\$ (0.02)	\$ (0.00)

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 December 31, 2004, the Company had 16,262,648 fully issued and outstanding common shares, and 2,565,235 common stock options granted and outstanding. The options have a weighted average strike price of \$0.92 per share, and a weighted average term to expiry of 2.5 years. During the six months to December 31, 2004, a total of 109,000 stock options were granted at a strike price of \$0.55 per share, of which 20,000 were granted to insiders. To the date of this report, a further 39,500 stock options at a strike price of \$0.60 per share were granted to employees subsequent to December 31, 2004. The issued and outstanding common shares remains at 16,262,648 on February 7, 2005.

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 December 31, 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 \$330,331, with \$107,058 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 under its prepaid sales contracts. 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, 2006 to December 31, 2006. Subsequent to December 31, 2004, certain maturity dates, 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 December 31, 2004.

QUARTERLY REPORTING DATA – UNAUDITED (in millions of dollars except per share data):

	Q2'05	Q1'05	Q4'04	Q3'04 Restated	Q2'04 Restated	Q1'04 Restated	Q4'03 Restated	Q3'03 Restated
Sales contracts	2.27	3.22	3.20	1.78	1.41	2.44	2.20	2.91
Revenue	2.15	1.87	1.84	1.93	1.95	1.90	1.97	1.94
Operating expenses	2.39	2.63	2.84	2.75	2.65	2.65	2.69	2.88
Net income (loss)	(0.47)	(1.00)	0.94	(0.72)	(0.81)	(0.70)	(0.89)	(1.03)
Basic and diluted income (loss) per share	(0.03)	(0.06)	0.06	(0.04)	(0.05)	(0.04)	(0.06)	(0.06)

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.

FINANCIAL STATEMENTS

The interim consolidated financial statements included herein dated December 31, 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.

Regards,



John Livingston
Chief Executive Officer

Consolidated Interim Financial Statements

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

	As at	
	December 31,	June 30,
	2004	2004
		(restated)
ASSETS		
CURRENT		
Cash and cash equivalents	\$ 5,656,223	\$ 3,020,331
Short-term investments	741,034	2,649,130
Accounts receivable	1,823,414	2,644,723
Prepaid expenses and deposits	136,353	160,227
Current portion of deferred contract costs	1,119,637	896,060
Current portion of future income tax assets	266,165	266,165
	<u>9,742,826</u>	<u>9,636,636</u>
DEFERRED CONTRACT COSTS	1,066,180	810,558
PROPERTY AND EQUIPMENT	783,387	884,797
FUTURE INCOME TAX ASSETS	1,645,941	1,645,941
	<u>\$ 13,238,334</u>	<u>\$ 12,977,932</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	\$ 618,729	\$ 728,421
Current portion of accrued warranty	191,561	79,538
Current portion of deferred revenue	6,974,880	6,184,801
	<u>7,785,170</u>	<u>6,992,760</u>
ACCRUED WARRANTY	261,290	105,533
DEFERRED REVENUE	6,281,741	5,558,499
	<u>14,328,201</u>	<u>12,656,792</u>
SHAREHOLDER'S (DEFICIENCY) EQUITY		
Share capital (Note 3(i))	30,801,029	30,795,346
Contributed surplus	6,718,932	6,665,707
Loans to directors and employees	(621,672)	(624,204)
Deficit	(37,988,156)	(36,515,709)
	<u>(1,089,867)</u>	<u>321,140</u>
	<u>\$ 13,238,334</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 - UNAUDITED

(Expressed in Canadian Dollars)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003 (restated)	2004	2003 (restated)
REVENUE				
Monitoring revenue	\$ 2,107,710	\$ 1,923,402	\$ 3,917,853	\$ 3,773,533
Installation services, licencing fees & other revenues	38,127	27,141	102,958	73,845
	2,145,837	1,950,543	4,020,811	3,847,378
COST OF GOODS SOLD				
Monitoring, support and recovery	318,549	285,921	589,403	589,575
Technical support and product maintenance	229,950	225,967	495,823	552,494
	548,499	511,888	1,085,226	1,142,069
GROSS MARGIN	1,597,338	1,438,655	2,935,585	2,705,309
EXPENSES				
Sales and marketing	951,300	980,239	2,021,119	1,977,250
Research and development	340,246	578,767	754,655	1,082,415
General and administration	545,019	575,097	1,156,972	1,092,882
	1,836,565	2,134,103	3,932,746	4,152,547
OPERATING LOSS	(239,227)	(695,448)	(997,161)	(1,447,238)
OTHER EARNINGS (EXPENSE)				
Interest and other income	23,440	47,218	46,112	104,077
Interest and bank charges	(1,960)	(4,854)	(6,432)	(9,095)
Foreign exchange gain (loss)	(249,567)	(158,493)	(512,434)	(163,900)
	(228,087)	(116,129)	(472,754)	(68,918)
LOSS FOR THE PERIOD BEFORE INCOME TAXES	(467,314)	(811,577)	(1,469,915)	(1,516,156)
FUTURE INCOME TAXES	-	-	-	-
NET LOSS FOR THE PERIOD	(467,314)	(811,577)	(1,469,915)	(1,516,156)
DEFICIT, BEGINNING OF PERIOD - restated (Note 2)	(37,520,230)	(35,930,450)	(36,515,709)	(35,230,105)
Interest and exchange on loans to directors and employees	(612)	76	(2,532)	4,311
DEFICIT, END OF PERIOD	\$ (37,988,156)	\$ (36,741,951)	\$ (37,988,156)	\$ (36,741,950)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.03)	\$ (0.05)	\$ (0.09)	\$ (0.10)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING	16,257,455	16,016,145	16,253,539	15,945,966

See accompanying Notes to the Consolidated Interim Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED

(Expressed in Canadian Dollars)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2004	2003 (restated)	2004	2003 (restated)
OPERATING ACTIVITIES				
Net loss for the period	\$ (467,314)	\$ (811,577)	\$ (1,469,915)	\$ (1,516,156)
Items not involving cash:				
Amortization	90,646	84,732	184,549	174,593
Share-based compensation to employees	25,405	13,646	53,225	15,903
	(351,263)	(713,199)	(1,232,141)	(1,325,660)
Changes in non-cash operating working capital:				
Accounts receivable	567,267	227,455	821,309	(102,908)
Prepaid expenses and deposits	(12,790)	57,477	23,874	34,569
Deferred contract costs	(186,897)	88,556	(479,199)	27,732
Accounts payable and accrued liabilities	54,540	(135,013)	(109,692)	(342,162)
Accrued warranty	44,009	-	267,780	-
Deferred revenue	127,656	(611,796)	1,513,322	(69,449)
	242,522	(1,086,520)	805,253	(1,777,878)
INVESTING ACTIVITIES				
Property and equipment purchased	(28,771)	(45,461)	(83,140)	(84,334)
Disposition of short-term investments	994,920	973,517	1,908,096	3,295,449
	966,149	928,056	1,824,956	3,211,115
FINANCING ACTIVITIES				
Common shares issued on exercise of options	3,838	48,430	5,683	62,638
	3,838	48,430	5,683	62,638
NET CASH INFLOW	1,212,509	(110,034)	2,635,892	1,495,875
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,443,714	6,506,065	3,020,331	4,900,156
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 5,656,223	\$ 6,396,031	\$ 5,656,223	\$ 6,396,031

See accompanying Notes to the Consolidated Interim Financial Statements.

ABSOLUTE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian Dollars)

For the Three and Six Months Ended December 31, 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 and six months ended December 31, 2004 have been included. Interim results for the three and six months ended December 31, 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:

For the three and six months ended December 31, 2003	3 Mo Period	6 Mo Period
Revenue - increase	\$ 203,291	\$ 347,130
Sales and marketing expenses - (increase)	(88,556)	(27,732)
Foreign exchange loss - (increase)	(371,023)	(356,563)
Change in loss - (increase)	\$ (256,287)	\$ (37,165)
Change in basic and fully diluted loss per share - (increase)	\$ (0.02)	\$ (0.00)

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

(i) Issued Common Shares:	Number of Shares	Amount
Balance at June 30, 2004	16,247,398	\$ 30,795,346
Common shares issued on exercise of options	15,250	5,683
Balance at December 31, 2004	16,262,648	\$ 30,801,029

ABSOLUTE SOFTWARE CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - UNAUDITED

(Expressed in Canadian Dollars)

For the Three and Six Months Ended December 31, 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 3,725,456 common shares available to be allocated to participants under the Plan. At December 31, 2004, the total share options outstanding were:

Share options outstanding at June 30, 2004	2,680,610
Add: share options granted during the period	109,000
Less: share options exercised during the period	(15,250)
Less: share options forfeited during the period	(209,125)
<u>Share options outstanding at December 31, 2004</u>	<u>2,565,235</u>

The options outstanding at December 31, 2004 have an average term to expiry of 2.5 years and an average exercise price of \$0.92 per share. As at December 31, 2004, there were 1,893,231 (2,170,500 at December 31, 2003) potentially dilutive stock options outstanding when compared to the period average stock price of \$0.55 (prior year \$0.83) per share.

(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 and six months ended December 31, 2004 and 2003 would have been the pro forma amounts indicated in the table below.

	Three Months		Six Months	
	2004	2003	2004	2003
Loss reported for the period as reported	\$ (467,314)	\$ (811,577)	\$ (1,469,915)	\$ (1,516,156)
Pro forma adjustment	(13,884)	(15,994)	(27,864)	(33,251)
Pro forma loss for the year	\$ (481,198)	\$ (827,571)	\$ (1,497,779)	\$ (1,549,407)
Pro forma basic and diluted loss per share	\$ (0.03)	\$ (0.05)	\$ (0.09)	\$ (0.10)

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 108% for December 31, 2004 (104% for December 31, 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 December 31, 2004, total revenues in the United States were \$1,991,228 (2003 - \$1,755,067), and in Canada were \$108,472 (2003 - \$156,463). For the six months ended December 31, 2004, total revenues in the United States were \$3,706,643 (2003 - \$3,444,301), and in Canada were \$221,962 (2003 - \$333,077).

[This page intentionally left blank]

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

Rob Chase – Chief Financial Officer
(604) 730-9851 ext. 119
rchase@absolute.com

Dave Mason – The Equicom Group
(416) 815-0700 x237
dmason@equicomgroup.com

Corporate Office

Absolute Software Corporation
Suite 800, 111 Dunsmuir
Vancouver, BC Canada V6B 6A3
Tel: 1-800-220-0733 or (604) 730-9851
Fax: (604) 730-2621
info@absolute.com

U.S. Headquarters
Absolute Software Inc.
Suite 400, 10655 NE 4th Street
Bellevue, WA, USA 98004

Visit our website at www.absolute.com

Copyright and Trademark Acknowledgement

© 2004 Absolute Software Corp. All rights reserved. Computrace and Absolute are registered trademarks of Absolute Software Corp. All other trademarks are property of their respective owners. Computrace US Patents #5,715,174, #5,764,892, #5,802,280, #6,244,758, #6,269,392, #6,300,863, and #6,507,914. Canadian Patent #2,305,370. U.K Patents #EP793823, and #GB2338101. German Patent #695 125 34.6-08. Australian patent #699045.

* Chairman of Compensation Committee

** Chairman of Audit Committee