

Fiscal Year 2001

2

**Second
Quarterly
Report**

(Ended Dec. 31, 2000)

Highlights:

- Sales contracts of \$1.0 million for the quarter increased 2% over the same quarter last year, however decreased 31% from the immediately preceding quarter. For the six months ended December 31, 2000, sales contracts increased 35% to \$2.46 million over the \$1.82 million achieved for prior year to date ("prior YTD").
- Monitoring revenues increased 69% for the quarter to \$0.88 million. Year to date monitoring revenues increased by 71% to \$1.61 million.
- The Company posted a loss from operations for the current quarter of \$1.16 million (\$2.36 million for the six months to December 31, 2000), a 4% increase over the loss for the same quarter last year (a 5% increase over the loss for the prior YTD). This reflected increased operating costs associated with growing the business, including adding new personnel and developing additional software service modules.
- The Company maintains a Balance Sheet at December 31, 2000 with cash and cash equivalents at \$19.0 million (\$0.93 per share) and no long-term debt.
- Dell Computer Corporation continued to be one of the Company's major sources of growth, accounting for 22% of sales contracts during the quarter (31% for the YTD).
- Absolute has recently received a number of awards including:
 - The "Fastest Growing Software Partner" for 2000 awarded by DellWare – the Software Peripherals Group of Dell – from among more than 55,000 software peripheral products provided by DellWare;
 - Placing ninth among the Shooting Stars of Deloitte & Touche's prestigious Canadian Technology Fast 50 Program; and
 - Placing 97th on the T-Net Top 100 Technology Companies in British Columbia for the fiscal year ended June 30, 1999.
- Subsequent to quarter end, Absolute released Computrace® Version 8.0, an updated version of the Company's software. Version 8.0 allows organizations to cost effectively and proactively track their PC assets in addition to providing enhanced computer monitoring and theft recovery features.
- The Company continued to build its team to facilitate the future growth of the business, increasing its headcount to 65 employees at December 31, 2000 from 54 at September 30, 2000, with key hires in sales, customer support and development.

Financial Summary

Consolidated Operational Data (000s)

	For the Three Months Ended December 31,			For the Six Months Ended December 31,		
	2000	1999	Change	2000	1999	Change
Sales Contracts	\$ 998	\$ 977	2.2%	\$ 2,456	\$ 1,820	35.0%
Monitoring Revenue	\$ 884	\$ 523	69.0%	\$ 1,609	\$ 944	70.5%
Loss for the period	\$ 1,160	\$ 1,111	4.4%	\$ 2,365	\$ 2,251	5.0%
- Per share	\$ 0.06	\$ 0.14	-59.0%	\$ 0.12	\$ 0.28	-58.8%
Cash used for operating activities	\$ 154	\$ 776	-80.1%	\$ 1,136	\$ 1,562	-27.3%
- Per share	\$ 0.01	\$ 0.10	-92.2%	\$ 0.06	\$ 0.20	-71.5%
Weighted average shares outstanding	20,299	7,966	154.8%	20,297	7,965	154.8%

Consolidated Balance Sheet Data (000s)

	December 31,		Change
	2000	June 30, 2000	
Cash and cash equivalents	\$ 18,956	\$ 20,282	-6.5%
Deferred revenue	\$ 4,984	\$ 4,081	22.1%
Working Capital	\$ 16,376	\$ 18,691	-12.4%
Liquidity ratio	5.5 : 1	7.0 : 1	N/A
Number of common shares outstanding	20,326	20,295	0.2%

Sales Contracts:

Sales contracts for the second quarter of fiscal 2001 ("Q2FY01") of \$1.0 million (\$2.46 million for the year to date), were 2% higher than the \$0.98 million in the second quarter of fiscal 2000 (35% higher than the \$1.82 million for the prior YTD). However, the current quarter sales contracts were 31% lower than the \$1.46 million achieved in the immediately preceding quarter, reflecting an overall industry slowdown in new computer sales and a deferral of purchases by customers due to budgetary constraints. At the same time, preliminary analysis shows a necessary reorganization of the direct sales force during the quarter may have had a greater impact on closing accounts than was originally anticipated. As a result, there was an equal reduction in both direct and reseller sales contract activity in the second quarter of fiscal 2001.

Absolute reorganized and expanded the direct sales force from 17 to 23 employees in Q2FY01 to ensure relationships with strategic reseller partners are optimized and fully leveraged. Reseller partners have been responsible for generating 50% of total sales contracts in both the first and second quarters of fiscal 2001 compared to 38% and 53% of total sales contracts in the first and second quarters of fiscal 2000. Dell Computer Corporation continues to be the largest contributor among this group, generating 22% of sales contracts in Q2FY01 (31% for the year to date), compared to 36% for the same quarter last year (23% for the prior YTD).

In recognition of the Company's success with Dell, Absolute received the DellWare "Fastest Growing Software Partner" award for 2000 from among 55,000 software peripheral products sold by DellWare - Dell's software peripherals group.

Development and Operations:

Throughout the quarter, the development team continued efforts to enhance the existing theft recovery product and expand Absolute's suite of services. The release of Computrace Version 8.0 with the general availability of Phase I of Asset Tracking in Q2FY01 is a significant milestone for the Company as it illustrates the versatility of the patented Tracking Agent technology developed by Absolute.

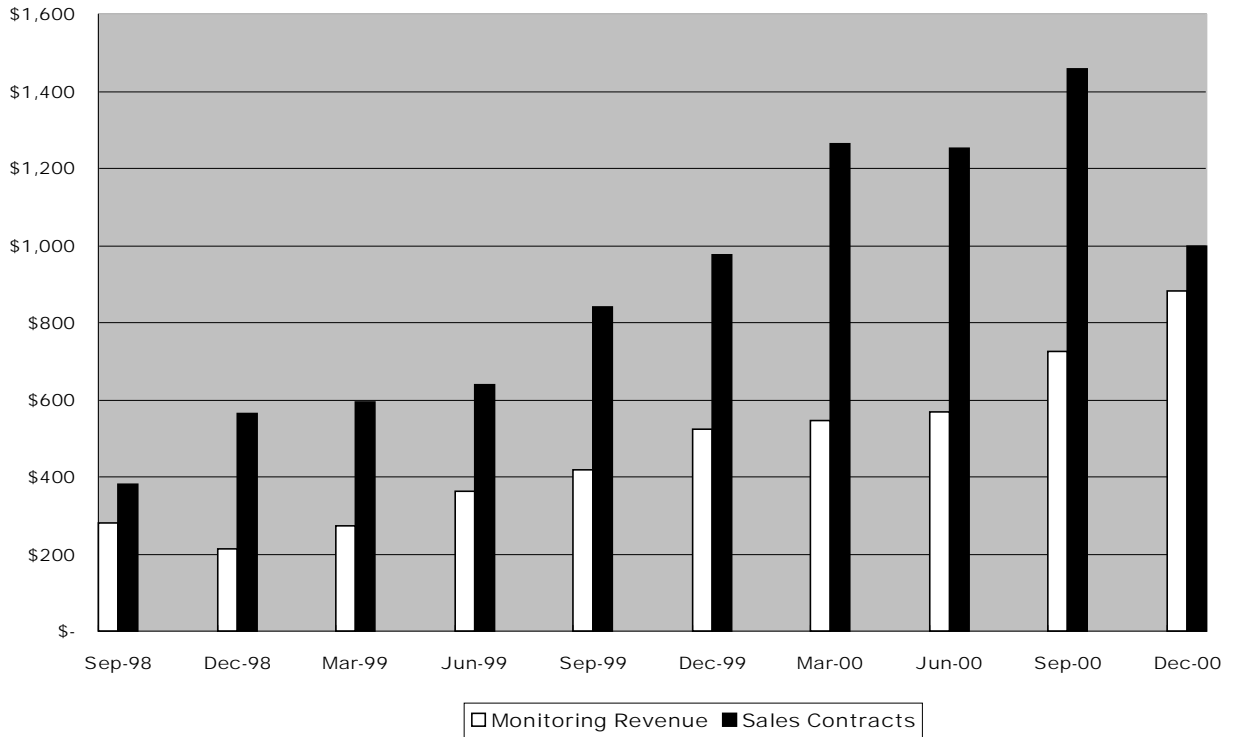
PC Asset Tracking is the first of the new services to be added to Absolute's PC management and security solutions portfolio. Management continues to pursue opportunities to offer clients additional services such as encryption, data backup, data delete, and software-based firewalls. Absolute's current Tracking Agent technology is well suited for enabling automated and seamless delivery of these and other services, and management is continuing discussions with several companies about integrating with other technologies.

Financial:

Monitoring revenue recognized in the financial statements for the three months ended December 31, 2000 of \$0.88 million increased 69% over the \$0.52 million in the corresponding quarter of fiscal 2000. On a year to date basis, monitoring revenue of \$1.61 million was 71% higher than the corresponding period last year. Growth in monitoring revenue has continued at a level consistent to previous quarters despite the slowdown in the growth in sales contracts for the current quarter. This is due to the lag in revenue recognition resulting from the deferral and monthly amortization of the sales contract value over its service life (generally one to three years).

Additionally, the Company's policy is to commence recognition of monitoring revenue in the month subsequent to the signing of the sales contract. Accordingly, the impact of the reduced growth rate in sales contracts for Q2FY01 will be smoothed over monitoring revenue recognized over the next one to three years.

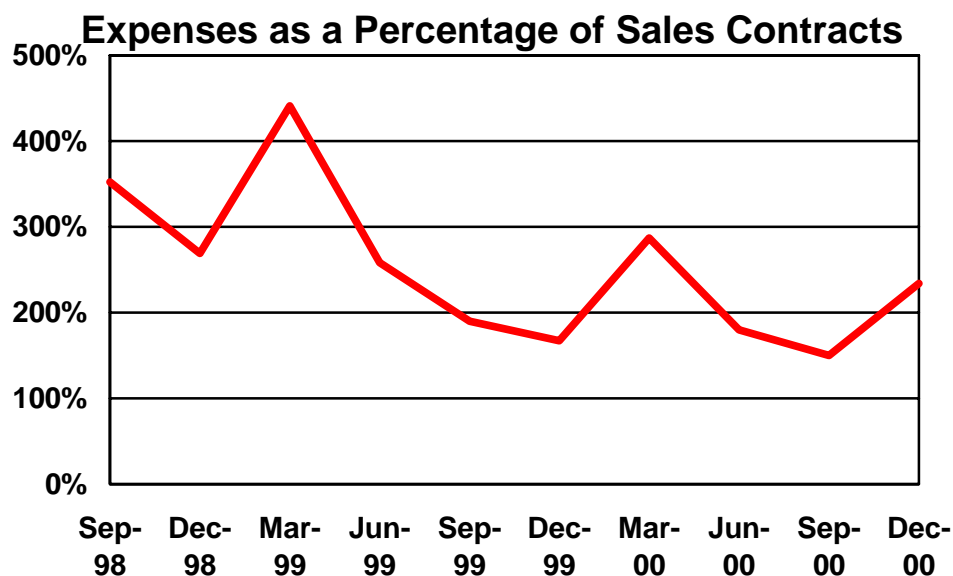
Quarterly Monitoring Revenue and Sales Contracts (000s)



The Company reported a net loss for the second quarter of fiscal 2001 of \$1.16 million (\$0.06 per share), a 4% increase compared to the net loss of \$1.11 million (\$0.14 per share) for the same quarter of the previous year. The net loss for the current year to date is \$2.36 million (\$0.12 per share), a 5% increase compared to the net loss of \$2.25 million (\$0.28 per share) posted in the prior YTD. The decrease in the loss per share in fiscal 2001 reflects the increase in the number of shares outstanding following the Company's initial public offering (IPO) on March 28, 2000. The net loss for the quarters and year to date for fiscal 2000 and fiscal 2001 is relatively constant despite the increase in monitoring revenues. This is due to the continued expansion of Absolute's staff complement and support infrastructure in order to develop and support the growth in the market and suite of services - an essential ingredient for growing monitoring revenues to a level of critical mass and profitability.

Overall, operating expenses have increased 35% from \$1.73 million in the second quarter of fiscal 2000 to \$2.34 million in the current quarter. On a year-to-date basis, the Company posted an increase in operating expense of 36% from \$3.33 million in the prior YTD to \$4.53 million. Approximately half of the increases are due to expansion of Absolute's team of employees from 38 at December 31, 1999 to 65 employees at December 31, 2000. The Company continues to expand its team in order to facilitate the growth objectives for the business. Since the IPO, the Company has added staff in 24 new positions: 9 in development, 9 in sales, 4 in marketing and 2 in finance and administration. The development positions include 6 developers, 2 sales engineers and 1 network administrator. The remainder of the increase in operating expenses is related to increases in marketing efforts, monitoring and general support costs.

Coupled with lower than expected sales contracts of \$1.0 million and increased staffing levels and support costs for the quarter, the expense to sales contract ratio increased to 234% (185% for the current year to date), versus 177% for the corresponding quarter last year (183% for the prior YTD). The Company remains focused on building critical mass for sales contracts in order to reduce this ratio below 100% and move toward profitability.



Selling and marketing expenses have increased 33% (32% for the YTD) to \$1.08 million in the current quarter (\$2.16 million for the YTD) from \$0.82 million in the same quarter last year (\$1.63 million for the prior YTD). For the year to date, selling and marketing compensation expense accounts for 36% of the increase while direct marketing, events and promotional materials account for 37% of the increase as the Company expands its sales and marketing efforts. The remainder of the increase relates to miscellaneous expenses.

Monitoring, support and recovery expense has increased 55% for the current quarter to \$0.21 million from \$0.13 million and 65% for the year-to-date to \$0.37 million from \$0.23 million for the prior YTD. For the first half of fiscal 2001, compensation costs account for 49% of the increase, while the remainder relates to increased packaging and monitoring costs from growth in the customer base.

Technical support and product maintenance expense represents the portion of operating costs, and engineering and development staff time spent on supporting and maintaining existing Computrace versions. The addition of development staff accounts for a majority of the 121% increase to \$0.18 million for the current quarter from \$0.08 million in the same quarter last year and the 102% increase to \$0.30 million for the year-to-date from \$0.15 million for the prior YTD.

Research and development costs have increased 78% to \$0.43 million in the quarter from \$0.24 million for second quarter of fiscal 2000, and 80% to \$0.82 million for the year-to-date from \$0.46 million for the prior YTD. For the first half of fiscal 2001, staffing costs accounted for 79% of the increase, while overhead allocation accounted for 24%, offset by a reduction of 22% from investment tax credits receivable booked in the quarter. The remainder of the increase relates to miscellaneous operational costs.

General and administrative expenses remained relatively stable compared to the prior year at \$0.39 million for the quarter and \$0.79 million for the year to date, compared to \$0.40 million and \$0.74 million for the corresponding periods last year. This is largely due to an increase in overhead allocation and personnel time related to research and development activities. The impact of the research and development cost allocation is offset by increased recruitment costs, combined with higher professional and investor relations fees associated with operating as a public Company.

Interest and other income has increased from the prior year to \$0.28 million for the quarter (\$0.57 million for the year), while interest expense and bank charges have decreased to \$0.01 million (\$0.01 million for the year). The increase in income and corresponding decrease in the expense is due to the Company's improved financial position subsequent to the IPO.

Foreign exchange gains of \$0.02 million in the quarter (\$0.01 for the year to date) are due to a majority of the Company's sales being generated in the U.S. and to translation of the U.S. subsidiary for consolidation purposes.

Cash used in operating activities for the quarter was \$0.15 million (\$1.14 million for the current year to date), improving upon the \$0.78 million used in operations the same quarter last year (\$1.56 million for the prior YTD). The improvement is largely attributable to the increase in sales contracts, concerted efforts to collect accounts receivable and an increase in interest income generated on proceeds from the IPO.

The Company's Balance Sheet reflects cash balances of \$18.96 million (\$0.93 per share) and no debt other than trade payables and deferred revenue at December 31, 2000. Absolute's working capital position remains strong at \$16.38 million (\$0.81 per share), down from \$18.69 million (\$0.92 per share) at June 30, 2000. Accordingly, Absolute is well positioned to meet its ongoing obligations as they come due, and has the financial resources to carry out its sales and marketing efforts and to continue to develop new services based on its proprietary technology platform.

Accounts receivable has decreased from \$1.42 million at June 30, 2000 to \$0.83 million at December 31, 2000. The decrease is due to the reduced level of sales contracts in the second quarter of fiscal 2001 and improvements in collecting on receivable balances. Receivable aging has remained relatively constant with 68% of trade receivables less than 60 days old at June 30, 2000 compared to 67% at December 31, 2000. Additionally, the average days outstanding for sales contracts in trade accounts receivable has increased from 94 days at June 30, 2000 to 99 days at December 31, 2000. The aging has remained relatively constant as Absolute continues to generate a approximately 50% of sales contracts through value added resellers (VARs), who generally pay 60 to 90 days after the invoice date as the VAR must first collect from their customer before they pay the Company.

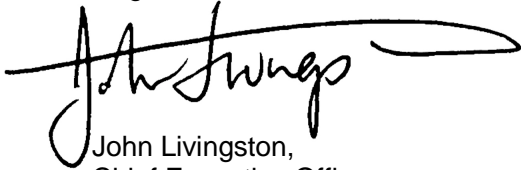
Deferred revenue balances have increased from \$4.08 million at June 30, 2000 to \$4.98 million at December 31, 2000. The increase represents the year to date amount by which new sales contracts booked (\$2.46 million) exceed monitoring revenue recognized (\$1.61 million), combined with a \$0.06 million increase from foreign exchange on USD contracts. The average term for sales contracts booked in the first six months of fiscal 2001 was 24 months.

Outlook:

Absolute has continued to build upon its service suite and the enabling technology of the Tracking Agent platform. While growth in sales contracts was less than expected for the second quarter of fiscal 2001, the Company will continue to develop its service offering and is actively pursuing a number of opportunities to aid in the process of expanding its selling opportunities. A significant number of new hires have been added to the sales and development team in support of this effort.

At this time, the pipeline for new sales contracts going forward looks promising. The release of Phase I of Version 8.0 with its enhanced PC Asset Tracking feature set based on the enabling technology of the Computrace Agent, is expected to be instrumental in helping to achieve sales contract growth targets.

Regards,

A handwritten signature in black ink, appearing to read "John Livingston", with a long horizontal flourish extending to the right.

John Livingston,
Chief Executive Officer
Absolute Software Corporation

Forward-Looking Statements

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

Financial Statements:

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

	2000	1999	2000	1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Income:				
Monitoring	\$ 883,890	\$ 523,043	\$ 1,608,855	\$ 943,526
Expenses:				
Selling and marketing	1,082,350	815,174	2,156,117	1,632,290
Monitoring, support and recovery	205,281	132,743	373,805	226,874
Technical support and product maintenance	177,477	80,168	298,298	147,371
Research and development	432,365	242,279	822,613	457,290
General and administrative	394,104	400,230	788,637	743,170
Amortization	45,170	60,549	94,327	123,154
	2,336,748	1,731,144	4,533,797	3,330,150
Loss from operations	1,452,858	1,208,101	2,924,942	2,386,624
Interest and other income (expense)	279,701	(7,660)	570,133	55,105
Interest expense and bank charges	(9,320)	(26,054)	(14,547)	(44,920)
Foreign exchange gains and (losses)	22,613	130,596	4,653	124,958
Loss for the period	1,159,864	1,111,219	2,364,703	2,251,481
Deficit, beginning of period	22,003,287	15,277,926	20,798,448	14,137,664
Deficit, end of period	\$ 23,163,151	\$ 16,389,145	\$ 23,163,151	\$ 16,389,145
Loss per common share	\$ (0.06)	\$ (0.14)	\$ (0.12)	\$ (0.28)
Weighted number of shares outstanding	20,298,740	7,966,146	20,296,886	7,965,043

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

	As at	
	December 31,	June 30,
	2000	2000
	(unaudited)	(audited)
Assets		
Current Assets:		
Cash and cash equivalents	\$ 18,955,913	\$ 20,282,123
Accounts receivable	833,662	1,417,465
Investment tax credits receivable	80,000	-
<u>Prepaid expenses and deposits</u>	<u>115,354</u>	<u>120,391</u>
	19,984,929	21,819,979
Loans to employees	856,200	826,043
<u>Capital assets</u>	<u>702,043</u>	<u>603,840</u>
	\$ 21,543,172	\$ 23,249,862
Liabilities and Shareholders' Equity		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 587,206	\$ 863,704
<u>Current portion of deferred revenue</u>	<u>3,021,670</u>	<u>2,265,302</u>
	3,608,876	3,129,006
<u>Long-term portion of deferred revenue</u>	<u>1,962,498</u>	<u>1,816,166</u>
	5,571,374	4,945,172
Shareholders' equity		
Common shares	39,134,949	39,103,138
<u>Deficit</u>	<u>(23,163,151)</u>	<u>(20,798,448)</u>
	15,971,798	18,304,690
Contingency (Note 2)		
	\$ 21,543,172	\$ 23,249,862
<u>Common shares outstanding</u>	<u>20,326,033</u>	<u>20,295,033</u>

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

	2000	1999	2000	1999
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Cash flows from operating activities:				
Loss for the period	\$ (1,159,862)	\$ (1,111,219)	\$ (2,364,703)	\$ (2,251,481)
Items not involving cash:				
Amortization	45,170	60,549	94,327	123,154
Common shares issued for services (Note 2)	29,174	-	29,174	-
Interest on loans to employees	(17,592)	(7,565)	(30,157)	(14,960)
Changes in non-cash operating working capital:				
Accounts receivable	1,105,923	13,321	583,804	(69,426)
Prepaid expenses and deposits	1,180	46,553	5,037	54,591
Investment tax credit receivable	(80,000)	-	(80,000)	50,000
Accounts payable and accrued liabilities	(182,635)	(231,631)	(276,498)	(330,227)
Deferred revenue	104,490	453,520	902,700	876,005
Net cash used for operating activities	(154,152)	(776,472)	(1,136,316)	(1,562,344)
Cash flows from investing activities:				
Capital assets purchased	(81,628)	(20,579)	(192,532)	(23,735)
Net cash used for investing activities	(81,628)	(20,579)	(192,532)	(23,735)
Cash flows from financing activities:				
Long-term debt	-	(11,668)	-	121,105
Due to shareholder	-	(8,008)	-	(8,008)
Common shares issued on exercise of options and warrants	-	-	2,638	2,100
Net cash provided (used) by financing activities	-	(19,676)	2,638	115,197
Decrease in cash and cash equivalents	(235,780)	(816,727)	(1,326,210)	(1,470,882)
Cash and cash equivalents, beginning of period	19,191,693	3,555,742	20,282,123	4,209,897
Cash and cash equivalents, end of period	\$ 18,955,913	\$ 2,739,015	\$ 18,955,913	\$ 2,739,015

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

For the Six Months Ended December 31, 2000

1. Significant accounting policies

- (a) Except as expressly stated below, the Company has followed the same accounting policies and methods of their application in quarterly reporting as was used in the Consolidated Financial Statements for the Year Ended June 30, 2000.
- (b) **Income taxes**
In the first quarter of fiscal 2001, the Company adopted the new accounting standards for accounting for income taxes. Effectively July 1, 2000, the liability method was adopted; previously the Company followed the deferral method. The new method did not result in changes to the carrying amount of future income taxes in the prior nor current periods.

2. Contingency

On April 27, 1998 the Company was served with a Writ of Claim by a former employee claiming rights to common shares. On December 19, 2000, the Company issued 31,000 common shares in settlement of the claim and recorded a \$29,174 increase in share capital. The contingent liability was accrued in the June 30, 2000 financial statements at \$59,250, resulting in a credit of \$30,076 to general and administrative expenses in the quarter ended December 31, 2000.

3. Comparative figures

Certain comparative figures have been reclassified to conform to the presentations adopted during the current quarter and year to date. The impact of the classification changes on the prior quarter ended September 30, 2000 is as follows:

For the Three Months Ended September 30, 2000

	Disclosure as Previously Reported	Reclassified Disclosure
Expenses:		
Selling and marketing	\$ 1,057,014	\$1,073,769
Monitoring and recovery	158,884	168,523
Technical support and product maintenance	-	120,821
Research and development	357,773	390,248
General and administrative	574,223	394,533
Amortization	49,156	49,156
Total	\$ 2,197,050	\$2,197,050

CORPORATE INFORMATION

Board of Directors:

Christian Cotichini
Vancouver, BC

Terry Libin
Calgary, AB

John Livingston
Vancouver, BC

Peter Scott
Vancouver, BC

Ian Reid
Vancouver, BC

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

Auditors:
KPMG LLP
Vancouver, BC

Legal Counsel:
Lang Michener Lawrence & Shaw
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Stock Exchange Listing:
Canadian Venture Exchange (CDNX)
Trading Symbol: ABT

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Peter Scott
Executive Vice-President & Chief Financial Officer

Phil Gardner
Chief Technology Officer

Michael Anfield
Vice-President, Recovery Services

Robert Chase
Director of Finance & Corporate Controller

Robin Jones
Director, Marketing

James Mantell
Vice-President, Sales - United States

Grant Kendall
Director of Sales - Canada

Fred McConnell
Director of Development

Robert Schram
Senior Vice-President, Strategic Development

Leo Raffin
Corporate Secretary

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