

**ABSOLUTE SOFTWARE CORPORATION  
ANNUAL INFORMATION FORM**

**To be read in conjunction with the Consolidated Audited Financial Statements and  
Management Discussion and Analysis for the Year Ended June 30, 2005**

**Dated: August 15, 2005**

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*Certain statements in this Annual Information Form 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 Form, 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 you should understand that Absolute cannot assure you that the forward-looking statements contained in this analysis will be realized.*

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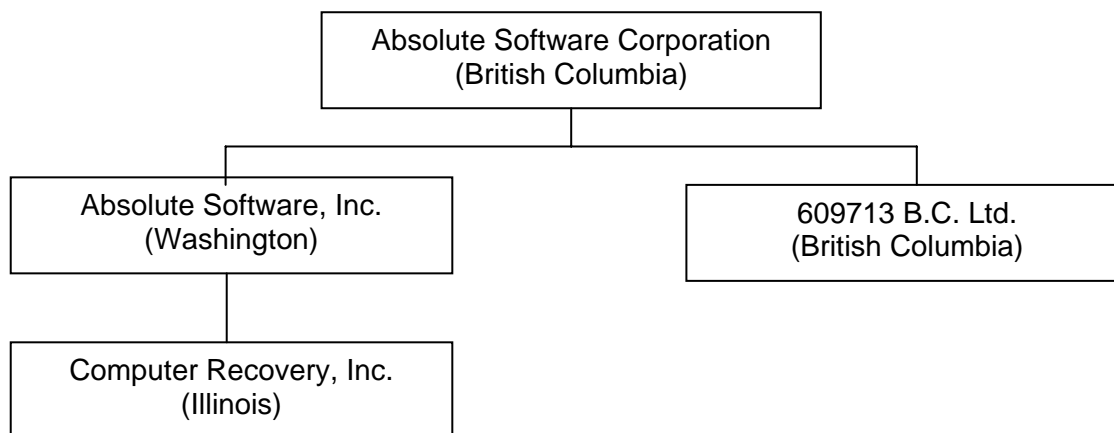
## COMPANY OVERVIEW

Absolute® Software Corporation (“Absolute”) helps organizations overcome the security risks and asset management challenges associated with the remote, mobile and desktop computing environment. Thanks to the company’s unique, patented Computrace® Technology Platform, Absolute’s products can be easily delivered as services over the Internet or as license software installed at the customer’s site. Over 2000 customers, including Fortune 1000 companies, small and medium businesses, education institutions and government organizations rely on these solutions every day to secure and manage their computing assets.

Absolute’s mission is to be the industry standard for computer theft recovery and secure asset tracking, and ultimately to become recognized as a world leader in security solutions for computers and other connected devices.

Absolute was incorporated in 1993 under the *British Columbia Business Corporations Act*. Its head office and principal place of business is located at 800 – 111 Dunsmuir Street, Vancouver, British Columbia V6B 6A3. Absolute has sales offices in Toronto, and through its wholly owned United States subsidiary, Absolute Software Inc., also has sales offices in San Francisco, Dallas, Austin, Atlanta, Chicago, Washington DC and New York. Absolute’s registered office is located at 1500 – 1055 W. Georgia Street, P.O. Box 11117, Vancouver, B.C. V6E 4N7.

The following chart sets out the ownership and the jurisdiction of incorporation of Absolute and all of its subsidiaries, each of which are wholly owned.



Absolute is the principal operating company, responsible for research and development, customer support, marketing, sales (outside the United States), fulfilment and administration. Absolute Software, Inc. is a limited distributor sales organization responsible for sales and distribution in the United States. Computer Recovery, Inc. was established to manage the company’s theft recovery and recovery guarantee operations. 609713 B.C. Ltd. is an inactive holding company.

## **BUSINESS OF THE COMPANY**

### **History and Development of the Business**

Absolute has been tracking Computers – remote, mobile, and desktop – in a managed service provider model since 1996. In 1997, Absolute utilized its Computrace service to facilitate its first software-aided recovery of a stolen computer. Today, Absolute draws on years of experience and the same core technology to help organizations overcome not only the security risks associated with their computers, but also the asset management challenges they pose.

During the past three fiscal years ended June 30, 2005, 2004 and 2003, Absolute has been focused on growing its business through expanded distribution channels, product enhancement and new product development. These efforts have been aimed at moving Absolute toward achieving its goal of being a world leader in security solutions for computing devices.

Absolute has developed a number of strategic relationships with first tier computer manufacturers (“OEMs”), the first of which was developed with DELL Inc. (“DELL”) in 1996, followed by IBM Corp. (“IBM”) in 2002 and Toshiba America Information Systems, Inc. (“Toshiba”) in 2003. Absolute has worked to build a trusted vendor status with these partners. Expansion of these relationships, along with creating new OEM relationships, was a significant part of Absolute’s growth strategy leading into fiscal 2003. This strategy was a key driver in the 57% increase in fiscal 2003 sales contracts over fiscal 2002, and enabled Absolute to maintain operations at this level in fiscal 2004. However, due to the devaluation of the U.S. dollar during the same period, the Canadian value of sales contracts declined 10% from fiscal 2003 to fiscal 2004. With over 90% of Absolute sales contracts denominated in U.S. dollars, this continued to be an issue in fiscal 2005. However, Absolute was able to grow its operations in fiscal 2005 at a faster rate than the approximate 10% decline in the U.S. dollar during this year.

Leading into fiscal 2005, Absolute launched the industry’s first guaranteed theft recovery solution – if Absolute is not able to physically recover a stolen computer, the customer is eligible for up to a \$1,000 guarantee payment, subject to adherence to Absolute’s terms and conditions. In addition, Absolute expanded its marketing programs aimed at the education and consumer market. These initiatives were sufficient to generate new sales contracts through Absolute’s OEM channels at sufficient levels to achieve the Company’s first fiscal year of positive cash from operations.

In February 2005, an announcement was made that IBM has started embedding Absolute’s software into the basic input output system (“BIOS”) of every new ThinkPad computer shipped by IBM/Lenovo. Initiatives to have computer OEM’s begin embedding Absolute’s software have been a core focus for the past five years – which Absolute refers to as its “Embedded Strategy”. This led to further sales contract increases in the fourth quarter of fiscal 2005. Combined with the guarantee, education and consumer initiatives, this resulted in Absolute reporting a 50% increase in sales contracts in fiscal 2005. In addition, sales contracts generated through OEM partners increased to 75% of total sales contracts from 69% in fiscal 2004 and 55% in fiscal 2003.

Management believes that the fiscal 2005 sales contract growth and adoption of the Embedded Strategy by IBM are signs that the Company is well positioned to execute on its mission. Looking ahead, management expects to achieve embedded solutions with other OEMs, to continue sales contract growth and to generate cash positive operations in fiscal 2006. The Embedded Strategy is expected to play a key role in Absolute's objectives to grow from 440,000 subscriptions under contract at June 30, 2005 to 1 million subscribers in the next two years. Absolute considers achieving these goals to be indicative of an industry standard company.

At June 30, 2005, Absolute had four product offerings – ComputraceComplete, ComputracePlus, AbsoluteTrack and Computrace Personal. On June 27, 2005, Absolute announced that it has acquired the rights to use the “LoJack®” brand name in connection with its consumer offering. LoJack® is a well known brand in the U.S. market and is expected to provide the branding strength required to grow Absolute's consumer business. LoJack® is a registered trademark of LoJack Operating Company L.P. (“LoJack”).

These products are offered through two delivery methods – as subscription services provided by Absolute over the Internet, or as on-site license software self-managed by customers. All products are developed to help customers “Keep IT Simple. Keep IT Safe.®”. The products are available in the license software model only to facilitate sales to large organizational customers with policies that do not allow purchase in Absolute's standard subscription model.

Computrace Complete, released in fourth quarter of fiscal 2004, is a Computer Theft Recovery and Secure Asset Tracking product that includes both ComputracePlus and AbsoluteTrack, along with a limited manufacturer warranty for recovery of stolen computers. If Absolute's Computrace Complete is unable to enable Absolute to recover a stolen computer within a specified time period, the customer may be eligible to receive a guarantee payment of up to \$1000.

ComputracePlus, Absolute's flagship product, is a computer tracking and loss control solution that ensures remote, mobile and desktop computers are secure and locatable. In the event a customer's computer is stolen, ComputracePlus provides location information to the Absolute Recovery Team, which works with local law enforcement to recover the computer. In addition, ComputracePlus was enhanced during fiscal 2002 to include other loss control features and during fiscal 2003 to add data delete functionality. The addition of other loss control features has enabled ComputracePlus customers to experience computer loss rates below industry standards. The addition of data delete functionality provides customers with the option of having the data on their lost or stolen computer deleted.

AbsoluteTrack, released in the second quarter of fiscal 2002, is an inventory tracking solution built upon the Computrace Technology Platform. The solution enables organizations to effectively manage software licenses, computer leases, machine configuration, system retirement, upgrades and device ownership.

Computrace Personal, released in fiscal 2004, is a Computer Theft Recovery product for the consumer / retail market that includes ComputracePlus functionality (excluding the asset tracking features) and a limited theft recovery warranty. As a result of entering into

a licensing arrangement with LoJack, this product is being phased out and replaced with "LoJack for Laptops".

Absolute entered the consumer market with Laptop Retriever, the predecessor to Compturace Personal, on test basis at the end of fiscal 2003. Following successful completion of its market tests, Absolute commenced efforts to expand into the consumer market towards the end of fiscal 2004. In December 2004, Absolute launched Compturace Personal through 230 CompUSA stores. As a result, the consumer market contributed to fiscal 2005 sales growth, and grew to 7% of total sales contracts from 4% in fiscal 2004 and 0% in fiscal 2003.

During fiscal 2003, Absolute launched an encryption and a firewall product – AbsoluteEncrypt and AbsoluteFirewall. However, in light of opportunities for its computer Theft Recovery and Secure Asset Tracking products, management decided to retire all non-core products during the fourth quarter of fiscal 2004. With this change, Absolute was also able to focus on its core products, and reduce its employee base by 20% from 95 to 76 employees during the fourth quarter of 2004. During fiscal 2005, Absolute's employee base remained relatively consistent and ended the year at 79 employees.

All of Absolute's products are available for PC (windows operating systems) and MacIntosh (Apple operating systems) computers. The functionality for Apple computers was released during fiscal 2003.

Absolute has built an experienced management team, adding Mr. Bob Chow as President and Chief Operating Officer and Mr. Richard Cohen as Vice President Sales in fiscal 2003. Management believes the Company has the experience-based know-how in the security and asset management market, the distribution channels, the products and the financial resources to execute on the Company's business plan.

At the end of fiscal 2005, Absolute had the financial resources necessary to execute on its business plan and to meet its operating and capital requirements. This included cash and temporary investment balances totalling \$11.9 million compared to \$5.7 million at June 30, 2004. Cash increased on Absolute's first year of positive cash from operations, along with a private placement completed in March 2005. The Company had total assets of \$22.3 million at June 30, 2005 compared to \$13.0 million at June 30, 2004.

Looking to fiscal 2006, Absolute expects to increase its selling and marketing expenditures and support infrastructure, growing headcount toward 100 employees by June 30, 2006.

### **Sales Contracts and Revenue Recognition**

Absolute's solutions are sold as sales contracts for either subscriptions to Absolute's services for a set term, or to software licenses and maintenance. A majority of sales contracts are for subscriptions.

Absolute recognizes revenue from sales contracts ratably over the contract term for subscription and maintenance contracts, and immediately upon delivery for software licences. 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. See the Company's 2004 Notes to Consolidated Financial Statements for further information on restatements from this accounting change.

Since revenue from sales contracts is deferred, revenue and gross margin will lag behind sales contracts and operating cash flow. As a result, management relies upon sales contracts and operating cash flow as the leading indicators of performance and profitability. Sales contracts are not a measure under Canadian generally accepted accounting principles ("GAAP") and do not have a standardized meaning prescribed by GAAP. See Note 8 to the fiscal 2005 Consolidated Financial Statements for GAAP reconciliation of deferred revenue to sales contracts and revenue.

### *Subscription Services*

Under the subscription services method, customers obtain their data and reporting functionality for the solution purchased through Absolute's Monitoring Centre. Subscription services are typically sold for 1 to 5 year terms, with payment due in full at the beginning of the contract. The value of the subscription service contract is recorded as deferred revenue and amortized to income on a straight-line basis over the contract term.

A majority of Absolute's sales contracts are for subscription services with contract terms averaging 2 to 3 years. Absolute's deferred revenue balance at June 30, 2005 was \$16.3 million, compared to \$11.7 million at June 30, 2004 and \$10.7 million (restated) at June 30, 2003.

### *License Software*

Absolute released its ComputracePlus and AbsoluteTrack solutions in a license software delivery method during fiscal 2003, following its first custom version delivered in fiscal 2002. Under the license software method, customers obtain a perpetual license to both the Computrace Agent and Monitoring Centre software and install the software in-house to enable the Absolute solutions purchased. Maintenance contracts may also be purchased for continued software support and updates.

The value of license software contracts is recognized as revenue upon delivery and customer acceptance of the software. Any portion relating to maintenance services is deferred and amortized over the maintenance term.

### **The Market Opportunity**

Absolute has traditionally focused on its Computer Theft Recovery and Secure Asset Tracking products, and has developed distribution channels to address this market, primarily within North America. The solutions are targeted primarily toward laptop users and as such, Absolute considers annual North American laptop shipments as its primary market. Absolute has an established distribution channel with leading computer OEMs, including DELL, IBM, HP, Gateway, Toshiba and Apple.

Given the proliferation of mobile and laptop computers and increase in communications technologies, including e-commerce for critical business functions, Absolute believes that information technology ("IT") security is, and will continue to be, a major area of focus for consumers and for businesses of all sizes. Worldwide shipments in Absolute's core addressable market for laptop and mobile computers were estimated at 36 million during calendar 2003 (IDC), and growing in both market size and by taking market share from desktops. Security concerns relate both to the protection of the physical computer and to the protection of key business information available on, or accessible through, the Computer. These concerns are very real, with an estimated 600,000 laptops stolen in calendar 2003 in the U.S. Awareness of security issues is expected to increase among consumer groups as well as among businesses, as the use of electronic technologies by both these groups continues to grow, and as regulatory bodies continue to stipulate requirements for increased protection.

Absolute also believes there is a market opportunity to provide software-based solutions to assist organizations in tracking the location of their computer assets within the organization and managing the data on, and the operation of, those computers. The asset tracking/inventory tools market, which is a subset of the larger asset management market, was expected to grow to US\$4.9 billion by 2003 according to the Gartner Group.

Absolute's software solutions developed to "Keep IT Simple. Keep IT Safe." These solutions address customer needs in the computer security and asset management markets. Absolute believes that there is a natural tend for these markets to merge, and has developed the products and channels to capitalize on this trend.

Absolute focuses in three key markets today:

- **Corporate Market:** Estimated to represent the largest potential market for Absolute's services. Sales contracts in the corporate market accounted for 46% of sales in fiscal 2005, up from 43% in fiscal 2004, and down from 73% in fiscal 2003 as a result of the increase in education and consumer market sales. Management expects the Embedded Strategy to generate sales growth in the corporate market.
- **Education Market:** Represents a significant market opportunity to which Absolute's solutions are particularly well suited. With the proliferation of computer assisted learning throughout North America, there are an increasing number of laptops being placed in the hands of K-12 and Hi-Ed students. School administrators are required to keep an accurate inventory of these computers, protect them against theft, provide replacements for those stolen and protect the students. Absolute's solutions provide a comprehensive and cost effective method of addressing these issues and for ensuring the programs are able to continue. As such, management believes Computrace is becoming a "must have" solution for the education market. Absolute's K-12 customer base now includes 9 of the top 15 school districts in the U.S. Sales contracts to educational institutions have increased annually, and represented 47% of sales in fiscal 2005, 50% in fiscal 2004 and 27% in fiscal 2003.
- **Consumer Market:** Consumers purchase approximately 1/3 of all laptops sold in North America. In fiscal 2004, Absolute began distribution of a consumer theft recovery offering (Computrace Personal) through Toshiba. Based on a successful evaluation of this program, Absolute launched Computrace Personal through 230 CompUSA stores in December 2004, and in January 2005 began distribution through

DELL's e-commerce site. As a result, consumer market sales contracts grew to 7% of sales in fiscal 2005, from 4% in fiscal 2004 and 0% in fiscal 2003. We expect that having the rights to use the LoJack brand name in our consumer market will provide the branding strength required to grow the consumer business.

### **Computrace Technology Platform**

The Computrace Technology Platform powers the Company's solutions for computer Theft Recovery and Secure Asset Tracking, and is at the core of Absolute's business. It is among the world's most persistent software (i.e. able to withstand unauthorized attempts to remove it), which enables reliable computer asset tracking and theft recovery. All of Absolute's products, whether delivered as managed services or as license software, are built on the patented Computrace Technology Platform.

The platform is comprised of the Computrace Agent and the Monitoring Center. The Computrace Agent is a secure software client that resides on the hard drive of host computers and enables the hands-free, auto-discovery of computer location information and asset data. The Agent contacts the Monitoring Center via a secure connection on a regular basis and transmits different auto-discovered data points, depending on the service(s) purchased.

Auto-discovered data is logged in Absolute's database and integrated on-line through the Absolute Console. Customers are then able to access their up to date asset information through web reporting tools. The Absolute Console was released in fiscal 2003 to replace the Customer Centre, and provides a unified console that allows IT administrators to centrally manage all of Absolute's solutions in their computing environment.

### **New Technology – The Embedded Strategy**

For the past five years, Absolute has pursued its Embedded Strategy with OEM partners, such as IBM, DELL, HP, Gateway and Apple. Absolute's Computrace technology was designed to enable it to be embedded in the basic input output system ("BIOS") of a computer. Once embedded in the BIOS, maximum effectiveness for Absolute's solutions is achieved. Absolute refers to this initiative as its "Embedded Strategy". Unlike Absolute's standard Computrace software, the BIOS-embedded version is shipped in a non-active state. Absolute and the OEM generate revenue when end user customers subscribe to Absolute's solutions and activate the Computrace software in the BIOS. This method of generating revenue is unchanged from that of Absolute's traditional business model.

In February 2005, Absolute announced IBM as the first OEM to adopt the Embedded Strategy, and in August 2005, Absolute announced Gateway as the second OEM. Following the IBM launch, Absolute achieved a record level \$5.0 million in sales contracts during the fourth quarter of fiscal 2005, largely due to the Embedded Strategy with IBM. Management expects to announce additional OEMs adopting the Embedded Strategy during fiscal 2006. With IBM and Gateway now adopting the Embedded Strategy, management is confident that others will follow.

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

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

In fiscal 2004, Absolute announced that Phoenix Technologies Inc. ("Phoenix") had adopted the Embedded Strategy. Phoenix has a majority of the third party BIOS market, and a majority of OEMs either use a Phoenix BIOS, or a Phoenix compatible BIOS. Absolute has yet to generate revenue from this relationship as Phoenix does not generally have a direct relationship with the end user purchasers.

## **Future Solutions**

### *Computer Based Solutions*

Absolute intends to continue to evaluate the market for software-based computer security and asset management services and to identify those that have the best commercial value. Absolute's customers, distribution partners and market researchers will continue to play a role in this process. Services under consideration by Absolute include: expanded data delete and secure asset tracking solutions, software distribution and deployment; and remote file back-up. Absolute expects to be able to deliver these solutions integrated within the Computrace Technology Platform either through in-house development, or through partnering with other technology providers.

The order and pace of introducing other solutions based on the Computrace Technology Platform will be a function of several factors. These factors include customer demand, development time required, and product introduction strategy.

### *Solutions for Devices other than the Computer*

The Computrace Technology Platform may be adaptable to other products that use a computer processor and online communications capability including hand held computers, smart phones, cablevision set-top boxes, personal digital assistants, credit card verifiers and other online products. The small, compact nature of the Computrace Agent and the trend towards connectivity to the Internet may provide additional market opportunities for Absolute.

Absolute has successfully tested its solutions on some of these devices. However, a date for entering the market with solutions targeted at other devices has not yet been planned. This will in part depend on opportunities within existing sales channels, and in part with Absolute's resource availability.

### **Sales and Marketing**

Absolute's primary distribution strategy is to generate sales growth through computer OEMs, including DELL, IBM, HP, Gateway, Toshiba and Apple. In addition, Absolute's distribution channels include both a direct sales force and value added resellers. Absolute's marketing team supports these channels with a focus on educating, creating awareness and generating leads. Absolute's direct sales force and marketing team was 33 employees at June 30, 2005, compared to 31 at June 30, 2004 and 34 at June 30, 2003. For fiscal 2006, Absolute plans to expand the sales and marketing team in order to capitalize on new opportunities through the Embedded Strategies.

The sales and marketing team works closely with resellers to identify and close opportunities in efforts to expand the Company's market penetration and opportunity pipeline. Absolute considers this a grass-roots or bottom-up selling approach. However, one of Absolute's key strategic initiatives is to create top-down OEM sales support to complement Absolute's direct efforts. Absolute expects that top-down support to be an enabler for broad scale adoption of Absolute's solutions.

DELL has traditionally been Absolute's largest OEM channel, through which Absolute has traditionally generated in excess of 40% of total sales contracts. However, other OEM channels have begun to expand in the past three years, increasing the percent of sales through OEM channels to 75% in fiscal 2005, from 69% in fiscal 2004 and 55% in fiscal 2003.

### **Research and Development**

Absolute recognizes that a capable product development team is essential for carrying out the business strategy of enhancing and expanding the capabilities of Absolute's core technology and services. Absolute has assembled a team of developers, engineers and other staff that it believes are capable of executing on the Company's product roadmap. The team included 21 employees at June 30, 2005, compared to 19 at June 30, 2004 and 25 at June 30, 2002. During fiscal 2004, Absolute eliminated products outside of its core-competency of Computer Theft Recovery and Secure Asset Tracking, at which time a reduction in staff was also undertaken.

Absolute also has a team of operational staff responsible for customer and technical support, recovery and maintaining the Company's IT infrastructure. This team also plays a role in maintenance and development of Absolute's solutions, and included 17 employees at June 30, 2005, compared to 14 at June 30, 2004 and 11 at June 30, 2003.

### **Customers**

Absolute has built a diversified customer base with over 440,000 subscribers including corporations, government agencies, educational institutions and individuals. Absolute serves customers in diverse industries, which helps mitigate the impact on Absolute of cyclical changes in any one industry or market. However, as over 40% of sales contracts

are generated in the education market, there is a some seasonality in the timing of sales contracts as the education purchasing cycle tends to be focused in June through August (Absolute's Q1 and Q4).

The Company generates a majority of its sales contracts in North America, though it also has an international presence through partners in South Africa, the United Kingdom, and Australia. Sales outside North America account for less than 5% of Absolute's total sales contracts.

While the Company does not have any single customer who accounts for a significant portion of revenues, a significant proportion of annual sales contracts are generated through reseller channels. In fiscal 2005, 86% of sales contracts were generated through reseller partners, compared to 83% in fiscal 2004 and 70% in fiscal 2003.

### **Intellectual Property Rights and Patents**

Absolute relies on a combination of copyright, trade secret and trademark laws, confidentiality procedures, contractual provisions and other similar measures to protect its proprietary information and technology. In addition, Absolute has received 12 patents for its technology and has another 2 pending. The patents cover a broad range of electronic devices and communication technologies. Computrace is a registered trademark of Absolute Software Corporation in Canada, the United States and the UK.

As part of its confidentiality procedures, Absolute has a policy of entering into non-disclosure and confidentiality agreements with its directors, employees, consultants, and corporate alliance members. Despite these efforts to protect Absolute's proprietary rights, unauthorized parties may attempt to copy or otherwise obtain the use of its products or technology that Absolute considers proprietary and third parties may attempt to develop similar technology independently. Absolute pursues registration and protection of its trademarks primarily in the United States, although it does seek protection elsewhere in selected key markets. Effective protection of intellectual property rights may be unavailable or limited in some countries. The laws of some countries do not protect proprietary rights to the same extent as in the United States and Canada. There can be no assurance that protection of Absolute's proprietary rights will be adequate or that its competitors will not independently develop similar technology.

Absolute anticipates that companies that develop software applications will be subject to infringement claims as the number of products and competitors in its industry segment grows and the functionality of products in different industry segments overlaps. As a result, Absolute may become involved in these claims. Any of these claims, with or without merit, could result in costly litigation, divert management's time, attention and resources, delay product shipments or require Absolute to enter into royalty or license agreements. If a claim of product infringement against Absolute is successful, its business and operating results could be adversely impacted.

During fiscal 2005, Absolute began efforts to enforce its patent portfolio. As a result, at least six competitors either exited the business, acquired licenses to Absolute's patent portfolio (whereby they will pay a per unit license fee on all future sales of their own products), or became resellers of Absolute's technology. Currently there are three competitors with whom Absolute may have to carry out court proceedings should they

not be willing to either cease selling their infringing products, or to enter into patent licensing agreements with Absolute.

Absolute's patents may provide an additional revenue stream for Absolute. However, management considers the key strategic value to be in securing Absolute's industry leadership position.

At August 15, 2005, there were three competitors who have yet to take one of the above courses of action. Accordingly, Absolute may have to take these companies to trial in order to complete the patent enforcement cycle.

No patent infringement cases have been brought against Absolute.

## **Competition**

Absolute faces competition from other software-based loss control/theft recovery and asset tracking/inventory management services, as well as from alternative security products. Certain of these competitors may have greater resources than Absolute and may provide significant competition.

A large number of companies offer alternative computer security products, including locks and cables, alarm systems, access control, Global Positioning System and radio frequency tagging, surveillance cameras and insurance. While such products are potentially substitutes for Computrace, they are also potentially complementary products. The relatively low-cost, low overhead, automatic and persistence features of Computrace make it attractive as part of a complete computer security package. In some cases, potential competitors have become strategic partners or customers of Absolute.

Absolute relies on a number of strategies to mitigate the impact of competition in its core business. From a product perspective, these include obtaining and enforcing its patent portfolio, and designing its products to provide maximum security with minimal cost and overhead implications. In addition, management believes the Embedded Strategy provides a competitive advantage in securing positions in the OEM sales channels.

## **Facilities**

Absolute leases 11,574 square feet of office space in Vancouver, British Columbia. The lease expires on December 31, 2010. Absolute also has additional sales offices throughout the U.S. in locations such as San Francisco, Los Angeles, Dallas, Austin, Atlanta, Florida, Chicago, Washington DC and New York, which are rented on a month to month basis.

## **Employees**

As at June 30, 2005, Absolute had a total of 79 employees, excluding independent contractors and temporary employees. Each employee executes a confidentiality and non-disclosure agreement as part of the terms of their employment. None of Absolute's employees are represented by a labour union, nor are they subject to a collective bargaining agreement. Absolute has never experienced a work stoppage, and management believes its employee relations to be favourable.

## **Risk Factors**

The Company is selling and developing products and services for new and emerging markets and, as a result faces a number of risks and uncertainties. These risks and uncertainties are described in the Fiscal 2005 Management Discussion and Analysis filed at [www.absolute.com](http://www.absolute.com) and at [www.sedar.com](http://www.sedar.com) , and are incorporated herein by reference.

## **DIVIDEND POLICY**

Absolute does not currently pay dividends on its Common shares. The actual timing, payment and amount of dividends paid by the Company in the Common shares, if any, will be determined by the Board of Directors from time to time, subject to applicable laws and based upon, among other things, the cash flow, results of operations and financial condition of Absolute, the need for funds to finance ongoing operations and such other business considerations as the Board of Directors considers relevant.

## **CAPITAL STRUCTURE**

The authorized capital of the Company consists of 50,000,000 Common shares and unlimited Preferred shares. As at June 30, 2005, 20,985,773 Common shares were issued and outstanding. Absolute's authorized capital also includes an unlimited number of Preferred shares, of which none are currently issued and outstanding.

The holders of Common shares are entitled to one vote for each share held on all matters to be voted on by such shareholders and, subject to any rights and priorities of the holders of Preferred shares, are entitled to receive such dividends as may be declared by the Board of Directors out of funds legally available for such purposes. In the event of the dissolution, liquidation, winding-up or other distribution of the assets of Absolute, such holders are entitled to receive on a pro-rata basis all of the assets of Absolute remaining after payment of all of Absolute's liabilities, subject to the rights of holders of Preferred shares. The Common shares carry no pre-emptive or conversion rights.

The Preferred shares are issuable in series and the Board of Directors is entitled to determine the designation, preferences, rights, conditions, restrictions, limitations and prohibitions to be attached to each series of such shares. The Preferred shares are entitled to priority over the Common shares with respect to the payment of dividends and distributions in the event of the dissolution, liquidation or winding-up of Absolute. The holders of Preferred shares are entitled to receive notice of any meeting of the shareholders of Absolute and to attend and vote thereat, except as otherwise provided in the rights and restrictions attached to the shares by the Board.

Absolute undertook two normal course issuer bids and one substantial issuer bid during fiscal 2002 and 2003. During the period of Absolute's first normal course issuer bid, in effect from June 2001 to June 2002, Absolute purchased and cancelled 689,000 of its Common shares at an average price of \$0.41.

During the period of Absolute's second normal course issuer bid, in effect from August 2002 to August 2003, Absolute purchased and cancelled 145,500 Common shares at an average price of \$0.30.

On December 24, 2002, the Company completed a substantial issuer bid through which it purchased and cancelled 3,552,632 Common shares at a price of \$0.38 per share for a total cost of \$1,530,659.

## **MARKET FOR SECURITIES**

The Company's Common shares are listed and posted for trading on the TSX Venture Exchange (TSX-V) under the ticker symbol ABT. CIBC Mellon Trust Company acts as the Transfer Agent and Registrar for Absolute's Common shares, and the register of transfers is maintained through its Vancouver office. A total of 4,867,771 Common shares were traded during the period July 1, 2004 to June 30, 2005, at daily closing prices ranging from \$0.41 per share to \$2.25 per share. This is up from 2,902,316 Common shares traded in the prior fiscal year with closing prices ranging from \$0.40 to \$1.04 per share.

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

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

The monthly share trading data for fiscal 2005 is as follows:

<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
July 2004	\$0.56	\$0.48	209,039
August 2004	\$0.55	\$0.42	152,630
September 2004	\$0.65	\$0.41	181,327
October 2004	\$0.65	\$0.50	145,793
November 2004	\$0.69	\$0.51	228,438
December 2004	\$0.64	\$0.60	126,071
January 2005	\$0.65	\$0.60	77,699
February 2005	\$1.18	\$0.76	1,068,683
March 2005	\$1.85	\$1.25	1,132,980
April 2005	\$1.70	\$1.26	400,731
May 2005	\$1.65	\$1.35	502,284
June 2005	\$2.25	\$1.55	641,466

## **DIRECTORS AND OFFICERS**

The Directors of the Company for fiscal 2005 was comprised of John Livingston (Chairman and Chief Executive Officer), and three outside directors; Ian Reid, Terry Libin and Christian Cotichini. The Company has two committees of the board comprised only of the three outside directors. The committees are the Audit Committee and the Compensation Committee. The term of office for all directors of Absolute expires at the fiscal 2005 annual general meeting.

The outside Directors of the Company include:

*Christian Cotichini.* Mr. Cotichini founded Absolute in November 1993, and has been a director since inception, and is also Chairman of Absolute's Compensation Committee. Mr. Cotichini is a resident of Vancouver, BC and during the past five years, his principal occupation has been as Executive Vice President of Make Technologies, Inc. (an Internet engineering outsource company). Mr. Cotichini holds 735,000 Common shares in the Company.

*Ian Reid.* Mr. Reid joined Absolute as a director in January 2000, and is also Chairman of the Audit Committee. Mr. Reid is a resident of Vancouver, BC. He was founder of Sierra Systems Group and Chief Financial Officer until 1999. During the past five years, his principal occupation has been as President of Rastus Holdings Ltd. (a business holding company). Mr. Reid returned to Sierra as Interim Chief Executive Officer in 2004 to 2005. Mr. Reid holds 140,500 Common shares in the Company.

*Terry Libin.* Mr. Libin joined Absolute as a director in January 1996. Mr. Libin is a resident of Calgary, Alberta, and during the past five years, his principal occupation has been as President of Highfield Development Ltd. (a privately owned real estate development company). Mr. Libin holds 580,113 Common shares in the Company.

The Officers of the Company include:

*John Livingston, Chairman of the Board, President and Chief Executive Officer.* Mr. Livingston is a resident of Vancouver, British Columbia ("BC"), and has served as Absolute's Chairman, President and Chief Executive Officer since October 1995. Mr. Livingston holds 1,589,635 Common shares in the Company and, along with certain of his associates, holds an interest in The Hummingbird Trust.

*Bob Chow, President and Chief Operating Officer.* Mr. Chow, a Chicago, Illinois resident, joined Absolute as a regional sales director in December 2001 and was promoted to Vice President Sales in April 2002, and to President and Chief Operating Officer in June 2003. Mr. Chow has over 18 years of sales/sales management experience with companies including AT&T Corporation and DELL. Prior to joining Absolute, Mr. Chow spent four years as a regional sales director for DELL. Mr. Chow holds 439,000 shares in the Company.

*Phil Gardner, Chief Technology Officer.* Mr. Gardner, a Woodberry, Minnesota resident, joined Absolute as Chief Technology Officer in 1997. Before joining Absolute, he was a senior software architect at Quarterdeck Corporation ("Quarterdeck") where he was responsible for developing its flagship product QEMM, a software application to manage computer memory. He also assisted in the co-ordination of Quarterdeck's in-house technical and field support, quality assurance and software development. Mr. Gardner holds 238,344 Common shares in the Company.

*Rob Chase, Chief Financial Officer.* Mr. Chase, a Vancouver, BC resident, joined Absolute in July 2000 as Director of Finance and Corporate Controller, and was promoted to Vice President Finance & Corporate Controller in April 2002, and Vice President, Finance (acting Chief Financial Officer) in April 2003, and to Chief Financial Officer on July 1, 2004. Prior to joining Absolute, Mr. Chase obtained his Chartered Accountant designation in 1994 while working with Deloitte & Touche, and worked with Arthur Anderson and Towers Perrin prior to joining Absolute. Mr. Chase holds 251,100 shares in the Company.

*Richard Cohen, Vice President, Sales.* Mr. Cohen, a Miami, Florida resident, joined Absolute as a sales director in November 2002, and was promoted to Vice President, Sales in June 2003. Before joining Absolute, he spent six years as a senior sales manager for DELL, where he ran a \$400 million per year financial vertical. Mr. Cohen holds 283,750 Common shares in the Company.

*Ben Haidri, Vice President Marketing & Business Development.* Mr. Haidri, a San Francisco, California resident, joined Absolute in May 2002. He has over 12 years experience in software technology particularly in the area of security technologies and business development. Prior to joining Absolute, Mr. Haidri held a senior management position with Novell, Inc. for two years and with Securitae Corp. (a distributed firewall provider) for three years. Mr. Haidri currently holds 108,750 shares in the Company.

*Don Hughes, Area Vice President Channel Sales.* Mr. Hughes, a Dallas, Texas resident, joined Absolute as a regional sales manager in November 1998 and was promoted to Area Vice President Channel Sales in April 2002. Mr. Hughes has over 21 years of sales/channel sales experience and held various director level positions with both Acer America Corporation and Texas Instruments Inc. prior to joining Absolute. Mr. Hughes holds 203,343 shares in the Company.

*Leo Raffin, Corporate Secretary.* Mr. Raffin, a Vancouver, BC resident, is a partner of Lang Michener, a national law firm with offices in Vancouver, Toronto and Ottawa. Mr. Raffin holds 10,300 Common shares in Absolute.

## **OWNERSHIP OF SECURITIES**

As of the date hereof, according to the records and knowledge of the Company, no person or corporation beneficially owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to all outstanding shares of Absolute, other than The Hummingbird Trust, Barbados, which currently holds 2,337,776 Common shares representing 11% of the outstanding Common shares, and Burgundy Asset Management Ltd. which held 2,800,000 Common shares representing 13% of the outstanding Common shares. Mr. John Livingston, Chairman and CEO of Absolute, and certain of his associates hold an interest in The Hummingbird Trust. The directors and officers of the Company collectively owned 4,579,835 Common shares of Absolute, or 22% of the outstanding Common shares as at June 30, 2005.

## **AUDIT COMMITTEE DISCLOSURE**

The Company has an audit committee composed of three financially literate independent directors, including Mr. Ian Reid (Chairman), Mr. Christian Cotichini, and Mr. Terry Libin. The Company is relying upon the exemption in section 6.1 of the Multilateral Instrument 52-110.

The audit committee charter will be included in its 2005 Information Circular, and is also attached to its fiscal 2004 Annual Information Form. The board of directors has accepted all recommendations of the Audit Committee with respect to the nomination and compensation of the Company's external auditor (Deloitte & Touche LLP). All audit and non-audit related fees to the external auditor for the fiscal year ended June 30, 2005 and for the year ending June 30, 2006 were approved in advance by the audit committee.

For non-audit services during fiscal 2006, the audit committee has pre-approved the chairman of the committee to authorize additional services to a maximum of \$15,000. The audit committee must approve any engagements for non-audit services beyond this

amount. Fees billed by the Company's external auditor for the fiscal years ended June 30, 2005 and 2004 were as follows:

	Amount billed during *	
	Fiscal 2005	Fiscal 2004
Audit fees	\$ 39,000	\$ 33,900
Audit-related fees **	19,752	5,900
Tax fees ***	11,500	18,250
Total fees	\$ 70,252	\$ 58,050

\* A portion of the fees billed during fiscal 2004 also relate to KPMG LLP. Deloitte & Touche was appointed auditor on November 12, 2003.

\*\* Other audit fees include additional fees relating to accounting policies and changes.

\*\*\* Tax fees include preparation of Canadian and U.S. tax returns, review of tax disclosures in the financial statements, and assistance with preparation of Scientific Research and Experimental Development Claims.

## **ADDITIONAL INFORMATION**

Additional information, including information with respect to the directors and officers of the Company and their remuneration and indebtedness, options to purchase securities, interests in material transactions and securities authorized for issuance under share option plans, where applicable, will be contained in the Company's information circular for its annual meeting to be held on December 15, 2005. Additional financial information is provided in the Company's audited consolidated financial statements and management discussion and analysis for the years ended June 30, 2005 and 2004. Copies of the comparative financial statements and management discussion and analysis may be obtained upon request from the Secretary of the Company and, along with other company information, are also available on-line at [www.absolute.com](http://www.absolute.com) and [www.sedar.com](http://www.sedar.com). The information circular for fiscal 2005 will be filed on SEDAR once completed, and the fiscal 2004 information circular is currently available.

The company's consolidated financial statements for the year ended June 30, 2004 were audited by Deloitte & Touche LLP.