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**Bioscript Inc.**

FIRST QUARTER REPORT 2002

## Letter to Shareholders

One of the best ways to judge a company's market position is to hear it from outside sources and I am very pleased that following a very tumultuous year in 2001, Bioscrypt emerged as the market leader in commercial finger-scan biometrics according to a recent study published by Frost and Sullivan. This resulted from years of development in creating superior technology, an expanding product offering suited to changing market needs and the dedication of a highly focused team of professionals.

Of course, being at the head of class means you need to continually strive to hold your leadership position. We started this year by meeting our quarterly sales expectations, although revenues were flat from the first quarter of last year. The security marketplace is presently undergoing a fundamental change in terms of sales cycles and opportunities. The dollar value and complexity of these new opportunities has made the decision process longer, however, our sales pipeline has grown dramatically, both in terms of the number of deals and the number of units per deal.

Presently, there are numerous government sponsored, travel related and corporate initiatives underway to strengthen security in all aspects of everyday life. While early spending has been focussed on background checking systems, most of the funding for authentication initiatives has not yet funnelled down to the people who actually will spend the money. It is only a matter of time before this money will be spent, and with all of these prospects in front of us, I believe that this year will be another year of strong growth for Bioscrypt.

Last year, we introduced a new product, the V-Smart™, which is well suited for large, multi-site installations as the number of users on the system is limitless with the templates being stored on individual smart cards, carried by the user. There are dozens of 1000+ reader deals that are presently in the proposal stage that we believe will be approved in the next three to twelve months and we certainly expect many of them to include Bioscrypt.

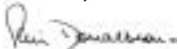
### Highlights of the quarter:

- Strategic U.S. patent issued describing portable biometric authentication device
- Inova Fairfax Hospital installs eko systems' Frontiers™ integrated with Bioscrypt's biometric technology
- Q9 Networks of Toronto signed a license for Bioscrypt Core™ to develop next generation access control system
- A new technology alliance with AiT (Advanced Information Technologies Corporation) of Ottawa and announced the first product; an integrated passport and biometric reader.

Bioscrypt's technology offering has been selected in an expanding list of pilot projects at airports and government sites. While we are cautious about making assumptions on the number of deals that will ultimately be awarded to Bioscrypt, we believe that our status as the market leader in the commercial finger-scan biometrics market, positions us well to capture many new deals in this expanding space.

I remain encouraged by the level of interest that the marketplace continues to show in our product offerings and the growing number of opportunities we face. I look forward to keeping you updated on our progress as we continue to solidify our position as the leading biometrics solutions provider.

Sincerely,



Pierre Donaldson  
President and CEO

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2002 (U.S. Dollars; Canadian GAAP)

The following discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements of Bioscrypt Inc. ("Bioscrypt" or the "Company") for the three months ended March 31, 2002. It should also be read in conjunction with the audited annual Consolidated Financial Statements and the Management's Discussion Analysis ("MD&A") for the fiscal year ended December 31, 2001 included in the Company's most recent Annual Report to Shareholders. Except for the historical information contained herein, the discussion in this Quarterly Report contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Company's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect" and similar expressions, as they relate to the Company, or its management, are intended to identify such forward-looking statements. Many factors could cause the Company's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including, but not limited to, risks and uncertainties such as recent operating losses, potential fluctuations in quarterly results, management of growth, dependence on management and key employees, risks related to acquisitions, dependence on a limited number of products, risks associated with distribution channels, potential for undetected errors in software, risks associated with international sales and exchange rate fluctuations, reliance on third-party relationships, protection of intellectual property, rapid technological change, risks associated with emerging markets, potential volatility of share prices, and limited financial resources, which risks and uncertainties are discussed in the prospectus of the Company dated January 11, 2002 filed with the Ontario Securities Commission. Should one or more of these risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Company does not intend, and does not assume any obligation, to update these forward-looking statements.

### Results of Operations

Effective January 1, 2002 the Company adopted the U.S. dollar as its reporting and functional currency. Accordingly, historical figures previously reported in Canadian dollars were translated into U.S. dollars using the exchange rate in effect on December 31, 2001, which was Canadian \$1.00 = U.S.\$0.6278. The results of operations for the three month periods ended March 31 of the Company in thousands of U.S. dollars are presented below:

	2002	2001
Revenue	\$ 1,192	\$ 1,170
Cost of Revenue	806	926
Gross Margin	386	244
Operating expenses	1,829	1,792
Loss from operations	(1,443)	(1,548)
Amortization	285	2,351
Loss before other	(1,728)	(3,899)
Other <sup>(1)</sup>	44	47
Net loss	\$ (1,684)	\$ (3,852)
Loss per share – basic and diluted	(3.9c)	(10.9c)

(1) - Other represents the net of interest income, interest expense and foreign exchange

## Revenue

Bioscrypt's revenues are generated principally from (i) product sales of biometrics readers used to control physical access and (ii) licensing, royalties and services relating to the Company's software algorithms to either manufacturers of biometric sensors, who in turn sell to manufacturers of wireless and network access devices (cell phones, PDA's, laptop computers, etc.), or directly to these device manufacturers.

Total revenues of \$1.19 million generated in the three months ended March 31, 2002 represent an improvement of 1.9% from the same period in the prior year. With the introduction of its new product offerings, particularly the V-Smart™, the Company's prospects are now large multi-site projects. This has resulted in a longer and more detailed sales cycle but ultimately provides a backlog of orders, as installations will be rolled out in several phases. Product sales revenues for the three months ended March 31, 2002, constitute 92.2% of total revenues down from 97.1% in the same period last year. The dollar decrease in product sales is primarily due to the lengthening sales cycle. License, royalties and services revenues increased to \$0.09 million, representing 7.8% of total revenues, from \$0.03 million, or approximately 2.9% of total revenues, in the first three months of fiscal year 2001. This increase is primarily due to new licensing deals and increasing royalty payments. In the three months ended March 31, 2002, the Company signed a new software licensing agreement with Q9 Networks ("Q9"), which will enable Q9 to develop proprietary access control units for their growing facilities. Additionally, royalty payments grew as a result of increasing per unit royalty payments associated with shipment of bioscrypt on board-enabled sensors through agreements with major manufacturers such as AuthenTec and Indivios.

## Cost of Revenue

The Company's gross margin in the first three months of fiscal 2002 has improved to 32.4% from 20.9% in the first three months of fiscal 2001. The improvement is a result of manufacturing efficiencies and improved component pricing. Additional gains were realized as a result of changes in the mix of product sales from the discontinued V2100™ to the Veri-Series™ product line and from higher margin license, royalties and services revenues. The Company expects to reach product margins in the 35% range during the current fiscal year. Cost of license, royalties and services consists primarily of expenses incurred in providing professional services, including consulting.

## Expenses

*Research and Development.* Research and development expenditures consist largely of salaries for technical personnel, the cost of related engineering materials, software tools and support. Research and development expenditures were approximately \$0.47 million for the three months ended March 31, 2002 compared to approximately \$0.55 million for the same period in the prior year. The decrease is primarily a result of attrition and realignment of functional headcount within the Company.

*Selling, general and administration.* Selling, general and administration includes salaries, commissions and other personnel related costs, facilities, travel expenses, advertising programs and other promotional activities associated with selling and marketing the Company's products as well as professional fees and other administrative expenses. Selling, general and administration expenditures were approximately \$1.35 million for the three months ended March 31, 2002 compared to approximately \$1.24 million for the same

period in the prior year. The increase resulted from additions to the sales force compliment as well as annual salary adjustments.

*Amortization.* For the three months ended March 31, 2002, amortization expense amounted to \$0.29 million compared with \$2.35 million recorded in the three months ended March 31, 2001. Amortization of fixed assets increased due to an increase in fixed assets. The overall decrease in amortization is predominantly due to the adoption of the new accounting rules with respect to the amortization of goodwill and intangibles as described Note 2 to the Consolidated Financial Statements.

*Other.* Interest income decreased to approximately \$0.04 million for fiscal 2002 compared to approximately \$0.17 million in the prior year. The decrease is due to lower interest rates and lower cash balances. Interest expense declined to approximately \$0.1 million for fiscal 2002 compared to approximately \$0.07 million for fiscal 2001. Interest expense for the three months ended March 31, 2001 primarily relates to convertible debt in Biometric Identification, Inc. ("BII") prior to the finalization of the acquisition. Finally, the Company realized approximately \$0.02 million of foreign exchange gain for the current period versus a loss of approximately \$0.06 million for the same period last year.

*Net Income/Loss.* For the three months ended March 31, 2002, the Company recorded a loss of \$1.68 million, or 3.9 cents per share, compared with a loss of \$3.85 million or 10.9 cents per share, recorded for the same period in the prior year.

## Liquidity and Capital Resources

Net cash used in operating activities in the three months ended March 31, 2002 was \$1.72 million versus \$2.63 million from the same period in the previous year. The decrease in cash burned is a result of expense controls implemented by the Company.

Cash used in investing activities decreased to \$0.05 million from \$0.44 million in the same period of the prior year. The decrease is due to fixed assets purchased for new premises and funds used toward the BII acquisition in the prior year.

Cash used in financing activities in the current year represents repayment of obligations under capital leases of \$0.01 million. Cash provided from financing activities in the previous year represents proceeds from the exercise of stock options. There were no stock options exercised in the three month period ended March 31, 2002.

At March 31, 2002, the Company had cash of approximately \$7.86 million, versus \$9.64 million at March 31, 2001. The Company believes cash on hand at March 31, 2002 is sufficient to meet foreseeable operating cash requirements.

## Outlook

The Company currently has no changes to previously issued full year guidance and remains confident that with continuing initiatives on controlling operating expenses and its reduction to on-going recurring expenses and the anticipated growth in sales, the Company continues to expect to report a quarterly operating profit early in 2003.

**BIOSCRYPT INC.****CONSOLIDATED BALANCE SHEETS**

<b>(Unaudited)</b> <b>(in U.S. dollars)</b>	<b>March 31</b> <b>2002</b>	December 31 2001 (Note 2)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	<b>\$ 7,863,337</b>	\$ 9,649,771
Accounts receivable	<b>1,579,795</b>	1,654,609
Inventory	<b>1,105,283</b>	852,810
Prepaid expenses and deposits	<b>182,814</b>	314,645
	<b>10,731,229</b>	12,471,835
<b>Fixed Assets</b>		
Deferred Development and Pre-operating Costs	<b>736,079</b>	744,671
Intangibles	<b>307,064</b>	406,990
	<b>17,838,698</b>	17,961,549
	<b>\$29,613,070</b>	\$ 31,585,045
<b>Liabilities and Shareholders' Equity</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	<b>\$ 1,625,119</b>	\$ 1,891,099
Current portion of obligations under capital leases	<b>20,919</b>	32,131
Current portion of deferred tenant inducement	<b>32,532</b>	32,532
	<b>1,678,570</b>	1,955,762
<b>Obligations Under Capital Leases</b>		
Deferred Tenant Inducement	<b>2,825</b>	5,093
	<b>92,939</b>	101,070
	<b>1,774,334</b>	2,061,925
<b>Shareholders' Equity (Note 3)</b>		
	<b>27,838,736</b>	29,523,120
	<b>\$29,613,070</b>	\$ 31,585,045

**BIOSCRYPT INC.****CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT**

Three months ended March 31

<b>(Unaudited)</b> <b>(in U.S. dollars)</b>	<b>2002</b>	2001 (Note 2)
<b>Revenue</b>		
Product sales	<b>\$ 1,098,394</b>	\$ 1,136,459
License, royalties and services	<b>93,400</b>	33,551
	<b>1,191,794</b>	1,170,010
<b>Cost of Revenue</b>		
Product sales	<b>791,181</b>	925,233
License, royalties and services	<b>14,637</b>	677
	<b>805,818</b>	925,910
<b>Gross Margin</b>	<b>385,976</b>	244,100
<b>Expenses</b>		
Research and development	<b>474,690</b>	551,568
Selling, general and administration	<b>1,353,882</b>	1,240,038
	<b>1,828,572</b>	1,791,606
<b>Loss Before Amortization and Other</b>	<b>(1,442,596)</b>	(1,547,506)
<b>Amortization</b>		
Fixed assets	<b>62,514</b>	40,890
Deferred development and pre-operating costs	<b>99,926</b>	99,926
Intangibles	<b>122,851</b>	2,210,767
	<b>285,291</b>	2,351,583
<b>Loss Before Other</b>	<b>(1,727,887)</b>	(3,899,089)
<b>Other</b>		
Interest income	<b>42,508</b>	173,462
Interest expense	<b>(1,037)</b>	(69,285)
Foreign exchange gain (loss)	<b>2,032</b>	(56,803)
	<b>43,503</b>	47,374
<b>Net Loss</b>	<b>(1,684,384)</b>	(3,851,715)
<b>Retained Earnings (Deficit) Beginning of Period</b>	<b>(15,330,490)</b>	256,102
<b>Deficit End of Period</b>	<b>\$(17,014,874)</b>	\$ (3,595,613)
<b>Loss Per Share</b>		
Basic and diluted	<b>(3.9c)</b>	(10.9c)

## BIOSCRYPT INC.

### CONSOLIDATED STATEMENTS OF CASH FLOWS

Three months ended March 31

(Unaudited) (in U.S. dollars)	2002	2001 (Note 2)
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net loss	\$ (1,684,384)	\$ (3,851,715)
Items not affecting cash:		
Amortization:		
Fixed assets	62,514	40,890
Deferred development and pre-operating costs	99,926	99,926
Intangibles	122,851	2,210,767
Deferred tenant inducement	(8,131)	(4,634)
	<b>(1,407,224)</b>	<b>(1,504,766)</b>
Changes in non-cash operating working capital items:		
Accounts receivable	74,814	(24,473)
Inventory	(252,473)	(380,247)
Prepaid expenses and deposits	131,831	30,856
Accounts payable and accrued liabilities	(265,980)	(749,028)
	<b>(1,719,032)</b>	<b>(2,627,658)</b>
Investing		
Purchase of fixed assets	(53,922)	(306,670)
Acquisition less cash acquired	-	(137,928)
	<b>(53,922)</b>	<b>(444,598)</b>
Financing		
Repayment of obligations under capital leases	(13,480)	-
Issue of common shares	-	71,381
	<b>(13,480)</b>	<b>71,381</b>
Net decrease in cash	<b>(1,786,434)</b>	<b>(3,000,875)</b>
Cash at beginning of period	<b>9,649,771</b>	<b>14,684,241</b>
Cash at end of period	<b>\$ 7,863,337</b>	<b>\$ 11,683,366</b>
Supplementary Information		
Interest paid during the period	\$ 1,037	\$ 792
Interest received during the period	\$ 42,508	\$ 169,699

## NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements include the accounts of Bioscript Inc. ("Bioscript" or the "Company") and its wholly-owned subsidiaries. These consolidated financial statements have been prepared by management in U.S. dollars in accordance with Canadian generally accepted accounting principles with respect to the preparation of interim financial information. Accordingly, they do not include all information and notes as required in the preparation of annual consolidated financial statements.

In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the interim period presented are not necessarily indicative of the results to be expected for any subsequent quarter or for the full fiscal year ending December 31, 2002.

The accounting policies used in the preparation of these unaudited interim financial statements are consistent with those used in preparing the annual financial statements. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2001, as set out in the 2001 Annual Report. Note disclosures have been presented for material updates to the information previously reported.

### 2. ACCOUNTING CHANGES

#### Foreign currency translation

Effective January 1, 2002 the Company adopted the U.S. dollar as its reporting and functional currency. Accordingly, historical figures previously reported in Canadian dollars were translated into U.S. dollars using the exchange rate in effect on December 31, 2001, which was Canadian \$1.00 = U.S.\$0.6278. Commencing January 1, 2002, current monetary assets and liabilities of the Company, which are denominated in foreign currencies, are translated into U.S. dollars at exchange rates in effect at the balance sheet dates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Any resulting foreign currency translation gains or losses are included in the consolidated statements of earnings in the current period.

#### Intangibles

In 2001, the Canadian Institute of Chartered Accountants ("CICA") issued a new Handbook Section 3062 - Goodwill and Other Intangible Assets. Goodwill and intangible assets with indefinite useful lives are no longer amortized but instead are tested for impairment at least annually by comparing their fair values with their book values. The Company is in the process of applying the impairment test transition rules in accordance with the new standard. The new standard does not change the accounting for intangible assets with determinable lives, which continue to be amortized over their estimated useful lives and are tested for impairment by comparing their book values with the undiscounted cash flows expected to be received from their use. Effective upon adoption of the standards on January 1, 2002, the Company discontinued amortization of existing goodwill on a prospective basis.

	Three months ended March 31, 2002	Three months ended March 31, 2001
Net Loss		
As reported	\$ (1,684,384)	\$ (3,851,715)
Add back:		
Goodwill amortization	-	(2,087,916)
Adjusted loss for the period	\$ (1,684,384)	\$ (1,763,799)
Basic and diluted loss per share		
As reported	(3.9c)	(10.9c)
Adjusted loss for the period	(3.9c)	(5.0c)

### Stock-Based Compensation Plans and Other Stock-Based Payments

Effective January 1, 2002, the Company adopted the new CICA standard for stock-based compensation and other stock-based payments, Section 3870. This Handbook section establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. This standard requires that a fair-value-based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. However, the new standard permits the Company to continue its existing policy of recording no compensation cost on the grant of stock options to employees. No restatement of prior periods was required as a result of the adoption of the new standard.

### 3. SHAREHOLDERS' EQUITY

	March 31, 2002	December 31, 2001
Common shares	\$ 44,438,893	\$ 38,246,180
Compensation warrants	414,717	-
Special warrants	-	6,607,430
Deficit	(17,014,874)	(15,330,490)
	\$ 27,838,736	\$ 29,523,120

In connection with the special warrants offering completed January 11, 2002 the Company issued to the Agents of the special warrants offering 727,721 compensation options. Each compensation option is exercisable at any time until November 12, 2003 for one common share, at an exercise price of \$1.74 Canadian per common share. An agent may, in lieu of satisfying the exercise price of the compensation options in cash, elect to receive on exercise the number of common shares determined by multiplying the number of compensation options exercised by the amount by which the market price of the common shares at time of exercise exceeds the exercise price and dividing the product so obtained by the market price at time of exercise. The Company has calculated the fair value of these compensation options at \$414,717 using the Black-Scholes option pricing model with the following assumptions:

	March 31, 2002
Risk-free interest rate	5.01%
Volatility factor of the future expected market price	100%
Dividend yield	0%
Weighted average expected life of the options	22 months

A summary of the changes during the three month period ended March 31, 2002 in common shares is as follows:

	Number	Amount
Balance, December 31, 2001	36,556,306	\$ 38,246,180
Special warrants exercised	7,277,212	6,607,430
Special warrants issue costs	-	(414,717)
Balance, March 31, 2002	43,833,518	\$ 44,438,893

#### Fixed Stock Option Plans

For stock options granted to employees in the three month period ended March 31, 2002, had the Company determined compensation cost based on the fair values at the dates of grant, the Company's loss for the period and loss per share would have been reported as the pro forma amounts indicated below:

	March 31, 2002
Net loss	\$ (1,684,384)
Fair value of options granted in the period	(44,040)
Pro forma loss	\$ (1,728,424)
Pro forma basic and diluted loss per share	(4.0c)

The fair value of each option granted was estimated on the date of the grant using the same assumptions used to value the compensation options, except for weighted average expected life, which is 5 years. For purposes of the pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period on a straight-line basis. The pro forma disclosure omits the effect of awards granted before adoption of Section 3870.

A summary of the changes during the three month period ended March 31, 2002, expressed in Canadian dollars, and the status of the Primary Stock Option Plan, Second Stock Option Plan and Third Stock Option Plan is presented below:

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
<b>Primary Stock Option Plan</b>		
Outstanding at December 31, 2001	1,909,954	\$ 2.20
Granted	132,500	\$ 1.61
Exercised	-	\$ -
Cancelled/Expired	(24,917)	\$ 2.81
Outstanding at March 31, 2002	2,017,537	\$ 2.15
Options exercisable at March 31, 2002	1,106,620	\$ 2.20
Options available for issuance at March 31, 2002	1,076,263	

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
<b>Second Stock Option Plan</b>		
Outstanding at December 31, 2001 and March 31, 2002	450,000	\$ 5.25
Options exercisable at March 31, 2002	300,000	\$ 5.25

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
<b>Third Stock Option Plan</b>		
Outstanding at December 31, 2001	493,333	\$ 3.89
Granted	-	\$ -
Exercised	-	\$ -
Cancelled/Expired	(43,333)	\$ 3.89
Outstanding at March 31, 2002	450,000	\$ 3.89
Options exercisable at March 31, 2002	103,950	\$ 3.89

### 4. SEGMENTED INFORMATION

The Company operates in one industry segment, which is the development and licensing of advanced biometric technologies to original equipment manufacturers and other customers requiring state of the art user authentication. Substantially all revenue is derived from sales to customers in the Americas. The Americas entails countries in North and South America. All assets of the Company, which support the revenues of the Company, are also located in the Americas. The distribution of net revenue by location of customers is as follows:

	Three Months Ended March 31,	
	2002	2001
Net revenue:		
Americas	\$ 890,830	\$ 980,646
Asia	164,005	61,874
Europe	112,089	62,884
Other	24,870	64,606
Total revenue	\$ 1,191,794	\$ 1,170,010

### 5. COMMITMENTS

As at March 31, 2002 the Company has commitments to purchase approximately \$2,075,000 of inventory.

bioscrypt™

[www.bioscrypt.com](http://www.bioscrypt.com)

Stock Exchange Listing  
The Toronto Stock Exchange (TSX-BYT)

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