



FELLOW SHAREHOLDERS:

Despite a relatively soft quarter in terms of revenue, we remain extremely confident in our ability to deliver our annual revenue targets this year. The first quarter revenue shortfall was primarily due to timing; several of our regular OEM customers delayed their purchase decisions until subsequent months/quarters, and we believe, based on our sales pipeline, that sales in the remainder of the year will more than compensate.

We continue to see tremendous demand for our products for securing physical access. Both the US and Canadian governments are stepping up their projects with respect to airport security, travel and border control, and many installations are currently underway in advance of the mandates anticipated from government agencies. In addition, the European market seems to be rapidly adopting biometric solutions and we expect increasing sales from this evolving market.

On the licensing front, we are working on numerous opportunities for a “door-to-desktop” solution. Many large corporations are looking for a single solution for both physical and logical access, and Bioscrypt is the only company that can provide a solution whereby an employee can enrol once, and then by using a single smartcard, gain access to the building, their office, and the corporate network, regardless of whether it is their home office or remote offices throughout the world! This solution can even be extended to wireless communications with a PDA or cell phone.

In the past quarter, Bioscrypt’s V-Smart™ *iCLASS™* was named “Product of the Year” by BiometriTech Magazine, further demonstrating our technological lead in physical access. We continued to display our dominant position for the use of biometric solutions for time and attendance applications, as evidenced by the installation by our partner, Synel Industries, time clock at Falabella department stores, one of South America’s largest chains. In addition, Kaiser-Permanente, America’s largest health plan provider was the first customer of NKL FireKing to launch its biometrically enabled cash management system.

The Company also announced that Oz Pieper, a pioneer in the identity management industry has joined Bioscrypt as an advisor to the management team, bringing a wealth of experience in both the commercial and government sectors. Bioscrypt also continued to expand its distribution network with the addition of Keri Systems, an acknowledged leader in proximity card readers and systems.

During the quarter, the Board determined that it would be prudent to obtain additional capital of \$5 million Canadian to mitigate the timing risk associated with the deployment of our technology. Although we are confident in our forecast and remain committed to achieving quarterly profitability by the end of the year, there is always risk of timing delays in an emerging market. The Company does not want to be in a position where it cannot achieve its potential due to cash constraints, and this financing is viewed as an “extension of the runway” for Bioscrypt to “take off”! With several parties showing interest to provide this financing, we view this as a strong endorsement of both the huge potential in the fingerprint biometrics space, as well as Bioscrypt’s position to be a leader in this market in the future. Further details of the financing will be provided once a transaction is completed, which is anticipated before the end of the second quarter.

Once again, I would like to extend my thanks to our employees, our shareholders and other business partners for their support. I look forward to report on our progress in the months ahead.

Sincerely,

Pierre Donaldson
President and CEO

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following is a discussion of the interim unaudited consolidated financial position, results of operations and cash flows of Bioscrypt Inc. for the three months ended March 31, 2003 and should be read in conjunction with the discussion of the consolidated financial position, results of operations and cash flows for the year ended December 31, 2002 along with the audited consolidated financial statements for such period and the accompanying notes. The Company reports its financial results in US dollars and under Canadian generally accepted accounting principles. This discussion has been prepared in conformance with recent guidelines published by the Canadian Institute of Chartered Accountants.

This Management’s Discussion and Analysis of Financial Condition and Results of Operations 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 those factors discussed below and in filings made by us with Canadian securities regulatory authorities. 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.

VISION, CORE BUSINESS AND STRATEGY

For the three months ended March 31, 2003, there have been no material changes with respect to the vision, core business and strategy as outlined in the discussion for the year ended December 31, 2002.

KEY PERFORMANCE DRIVERS

The Company’s discussion for the year ended December 31, 2002 outlined six key performance drivers. These are outlined below along with management’s assessment of performance for the three months ended March 31, 2003:

- **Top-line revenue growth.** Bioscrypt experienced a weak quarter in terms of top-line revenue growth relative to the previous quarter. This was a result of anticipated first quarter seasonal weakness as well as an abnormal delay in orders of the OEM module resulting from general economic uncertainty caused by worldwide events. However, management believes this was an isolated and short-term event and maintains its annual revenue growth forecast of 65%-85% relative to 2002.
- **Market share growth.** There have not been any further statistics published relative to market share, but management believes that the Company has at least maintained its leadership position.
- **Profitability.** Despite the weaker revenue growth in the first quarter, management continues to believe that with the anticipated annual revenue growth, quarterly profitability is achievable by the end of 2003.
- **Gross margin.** Product gross margins of 39% were achieved in the first quarter with overall gross margins of 40%. Management believes that it can improve slightly on these margins and maintain this level throughout 2003. Margin percentage could increase further with a significant increase in licensing revenue.
- **Technology leadership.** There were no independent test results published during the quarter, but management continues to believe that Bioscrypt possesses the fastest and most accurate fingerprint algorithm in the world.
- **Customer satisfaction.** Customer satisfaction levels can be determined through Bioscrypt press releases, industry publications, reference checking, etc.

CAPABILITY TO DELIVER RESULTS

Capital Resources and Liquidity

At March 31, 2003, Bioscrypt had cash of approximately \$3.04 million, versus \$3.92 million at December 31, 2002, which is consistent with projections provided earlier. Subsequent to the end of the quarter, the Company announced that it was in the process of securing additional capital of \$5 million Canadian, and anticipated a transaction would be closed by the end of the second quarter. Management views this financing as a hedge against potential economic and market risks, but maintains its goal of generating positive cash flow by the end of 2003.

For the period ended March 31, 2003, non-cash working capital decreased by approximately \$0.04 million relative to December 31, 2002. Due to the weak quarter in terms of top-line revenue, accounts receivable decreased \$0.70 million to \$0.83 million. Inventory increased by \$0.39 million to \$2.18 million. Inventory has increased due to the lower revenue and initial procurement for the V-Station product line. Prepaids and deposits were \$0.19 million at December 31, 2002 and March 31, 2003. Accounts payable and accrued liabilities decreased \$0.27 million to \$1.55 million at March 31, 2003. The decrease is due to timing in payables from December 31, 2002.

For the period ended March 31, 2003 Bioscrypt invested approximately \$0.02 million in capital assets. Financing activities generally result from the issuance of shares relative to the exercise of employee stock options, of which there were none in the period ended March 31, 2003, and normal capital lease payments.

RESULTS

	2003	2002
Revenue	\$ 1,106	\$ 1,192
Cost of Revenue	661	806
Gross Margin	445	386
Operating expenses	1,454	1,829
Loss from operations	(1,009)	(1,443)
Amortization	179	285
Loss before other	(1,188)	(1,728)
Other (i)	118	44
Net loss	\$ (1,070)	\$ (1,684)
Loss per share – basic and diluted	(2.4c)	(3.9c)

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

Revenues

Although first quarter revenues are generally slow, this quarter was softer than expected primarily due to the uncertainties in the market as a result of worldwide events. Revenues for the three month period ended March 31, 2003 were \$1.11 million, a decrease of \$0.09 million from the same period in the prior year.

Hardware revenue, for the three month period ended March 31, 2003 accounted for 99% of total revenue, with the balance representing software license, royalty and services revenue. This compares to 92% hardware and 8% licensing, royalty and services revenue in the same period in the prior year. Licensing activity continues to be slow as a result of general economic conditions, whereby potential licensees put future development projects on hold as they dealt with more immediate issues.

In terms of hardware sales, the Veri-Series product line remained strong but sales of the OEM module were down considerably as customers delayed purchase decisions. For the period ended March 31, 2003 Veri-Series revenues increased by approximately \$0.06 million and unit sales increased by 1% over the same period in the prior year. For the period ended March 31, 2003 OEM module revenues decreased by \$0.08 million and unit sales decreased by approximately 11% over the same period in the prior year.

Revenues from sales outside of the Americas represented 42% and 25% respectively for the quarters ended March 31, 2003 and 2002. Bioscrypt believes there are significant opportunities for biometric solutions in the international market, primarily in Europe and, accordingly, intends to continue to invest in this strategic market.

For the three months ended March 31, 2003, one customer accounted for approximately 11% of the Company's total revenue, while two customers accounted for approximately 25% of the total revenue for the comparable period in the prior year. In addition, Bioscrypt's five largest customers accounted for 29% and 45% respectively for the periods ended March 31, 2003 and 2002.

Cost of Revenues and Gross Margin

Cost of revenues consists primarily of hardware manufacturing costs and related shipping charges. For the period ended March 31, 2003 gross margin increased 15% or \$0.06 million relative to the comparable period in the prior year. This was as a result of continued improvements in reducing hardware costs. As a percentage, gross margin increased to 40% of sales from 32% in the comparable period in the prior year. Hardware margins were 39% compared to 28% in the comparable period in the prior year.

Expenses

Research and development expenditures consist largely of salaries for technical personnel, the cost of related engineering materials, software tools and support, project expenses and related third party consulting costs. Research and development expenditures were approximately \$0.52 million for the period ended March 31, 2003 compared to approximately \$0.59 million for the comparable period in the prior year. The decrease is primarily due to the completion of the V-Smart product in quarter 1 of 2002.

Selling, general and administration expenses consist of employee salaries and related personnel costs for sales, marketing, executive, financial and administrative functions, related travel for these individuals, public relations and communications costs, trade shows, and administrative costs. Selling, general and administration expenses were approximately \$0.93 million for the period ended March 31, 2003 compared to approximately \$1.24 million for the comparable period in the prior year. The decrease is a result of the restructuring charge from quarter 3, 2002, which reduced headcount and also aligned expenses with revenues.

Amortization for the period ended March 31, 2003 was \$0.18 million versus \$0.29 million in the comparable period in the prior year. The difference is due to the amortization of deferred development and pre-operating costs which was fully amortized in quarter 4 of 2002.

Other. Interest income decreased to approximately \$0.02 million for the period ended March 31, 2003 compared to approximately \$0.04 million in the prior year. The decrease is due to lower cash balances. Interest expense relates primarily to interest on capital leases and was consistent with the prior period. Finally, the Company incurred approximately \$0.1 million of foreign exchange gain for the current period versus a gain of \$0.002 million for the same period in the prior year. The increase is due to the appreciation in the Canadian dollar.

Accounting Changes

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14, - disclosure of guarantees - ("AcG-14"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees.

AcG-14 requires the guarantor to disclose the nature of the guarantees, the maximum potential amount of future payments and the current carrying amount of the liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The disclosure is required even if is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

In the first quarter of 2003, the Company has adopted the disclosure requirements of AcG-14 and has found no guarantees from their current contracts.

Prospective Analysis

For the three months ended March 31, 2003, there have been no material changes with respect to the prospective analysis as outlined in the discussion for the year ended December 31, 2002.

Risks

For the three months ended March 31, 2003, there have been no material changes with respect to the risks as outlined in the discussion for the year ended December 31, 2002.

BIOSCRYPT INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(in U.S. dollars)

	March 31 2003	December 31 2002
Assets		
Current Assets		
Cash	\$ 3,038,413	\$ 3,916,076
Accounts receivable	826,865	1,522,721
Inventory	2,177,051	1,788,985
Prepaid expenses and deposits	194,049	194,230
	<u>6,236,378</u>	<u>7,422,012</u>
Fixed Assets		
Intangibles	625,260	663,104
	<u>7,347,294</u>	<u>7,470,145</u>
	<u>\$ 14,208,932</u>	<u>\$ 15,555,261</u>
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,552,700	\$ 1,820,569
Current portion of obligations under capital leases	2,823	5,143
Current portion of deferred tenant inducement	32,532	32,532
	<u>1,588,055</u>	<u>1,858,244</u>
Deferred Tenant Inducement	60,413	68,544
	<u>1,648,468</u>	<u>1,926,788</u>
Shareholders' Equity		
Share capital	44,438,893	44,438,893
Compensation warrants	414,717	414,717
Contributed surplus	11,893	-
Deferred stock compensation	(9,910)	-
Deficit	(32,295,129)	(31,225,137)
	<u>12,560,464</u>	<u>13,628,473</u>
	<u>\$ 14,208,932</u>	<u>\$ 15,555,261</u>

BIOSCRYPT INC.
CONSOLIDATED STATEMENTS OF EARNINGS AND DEFICIT
Three months ended March 31
(Unaudited)
(in U.S. dollars)

	2003	2002
Revenue		
Product sales	\$ 1,091,566	\$ 1,098,394
License, royalties and services	15,000	93,400
	<u>1,106,566</u>	<u>1,191,794</u>
Cost of Revenue		
Product sales	661,400	791,181
License, royalties and services	-	14,637
	<u>661,400</u>	<u>805,818</u>
Gross Margin	445,166	385,976
Expenses		
Research and development	524,994	593,363
Selling, general and administration	929,102	1,235,209
	<u>1,454,096</u>	<u>1,828,572</u>
Loss Before Amortization and Other	(1,008,930)	(1,442,596)
Amortization		
Fixed assets	56,258	62,514
Deferred development and pre-operating costs	-	99,926
Intangibles	122,851	122,851
	<u>179,109</u>	<u>285,291</u>
Loss Before Other	(1,188,039)	(1,727,887)
Other		
Interest income	15,663	42,508
Interest expense	(147)	(1,037)
Foreign exchange gain	102,531	2,032
	<u>118,047</u>	<u>43,503</u>
Net Loss	(1,069,992)	(1,684,384)
Deficit Beginning of Period	(31,225,137)	(15,330,490)
Deficit End of Period	<u>\$ (32,295,129)</u>	<u>\$ (17,014,874)</u>
Loss Per Share		
Basic and diluted	(2.4c)	(3.9c)

BIOSCRYPT INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Three months ended March 31
(Unaudited)
(in U.S. dollars)

	2003	2002
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net loss	\$ (1,069,992)	\$ (1,684,384)
Items not affecting cash:		
Amortization:		
Fixed assets	56,258	62,514
Deferred development and pre-operating costs	-	99,926
Intangibles	122,851	122,851
Deferred tenant inducements	(8,131)	(8,131)
Issuance of options for services	1,983	-
	<u>(897,031)</u>	<u>(1,407,224)</u>
Changes in non-cash operating working capital items:		
Accounts receivable	695,856	74,814
Inventory	(388,066)	(252,473)
Prepaid expenses and deposits	181	131,831
Accounts payable and accrued liabilities	(267,869)	(265,980)
	<u>(856,929)</u>	<u>(1,719,032)</u>
Investing		
Purchase of fixed assets	(18,414)	(53,922)
Financing		
Repayment of obligations under capital leases	(2,320)	(13,480)
Net decrease in cash	(877,663)	(1,786,434)
Cash at Beginning of Period	3,916,076	9,649,771
Cash at End of Period	<u>\$ 3,038,413</u>	<u>\$ 7,863,337</u>
Supplementary Information		
Interest paid during the period	\$ 147	\$ 1,037
Interest received during the period	\$ 15,663	\$ 42,508



BIOSCRYPT INC.

Notes to Interim Consolidated Financial Statements

March 31, 2003

(Unaudited)

(in U.S. dollars)

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 interim unaudited 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, 2003.

The accounting policies used in the preparation of these interim unaudited consolidated financial statements are consistent with those used in preparing the annual financial statements. These interim unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2002, as set out in the 2002 Annual Report. Note disclosures have been presented for material updates to the information previously reported.

2. ACCOUNTING CHANGES

In February 2003, the Canadian Institute of Chartered Accountants ("CICA") issued Accounting Guideline 14, - disclosure of guarantees - ("AcG-14"), which addresses the disclosure to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees.

AcG-14 requires the guarantor to disclose the nature of the guarantees, the maximum potential amount of future payments and the current carrying amount of the liability for the non-contingent component of the guarantee, which is the obligation to stand ready to perform in the event that specified triggering events or conditions occur. The disclosure is required even if it is not probable that payments will be required under the guarantee or if the guarantee was issued with a premium payment or as part of a transaction with multiple elements.

In the first quarter of 2003, the Company has adopted the disclosure requirements of AcG-14 and has found no guarantees from their current contracts.

3. SHAREHOLDERS' EQUITY

The Company has three fixed stock option plans. For stock options granted to employees since the adoption of CICA Handbook Section 3870 - stock based compensation and other stock-based payments - had the Company determined compensation cost based on the fair values at the dates of grant, the Company's net loss would have been reported as the pro forma amounts indicated below:

	Three Months Ended March 31,	
	2003	2002
Net loss	\$ (1,069,691)	\$ (1,684,384)
Pro forma loss	\$ (1,181,938)	\$ (1,728,424)
Pro forma basic and diluted loss per share	(2.7c)	(4.0c)

The fair value of each option granted was estimated on the date of the grant using the following assumptions:

Risk-free interest rate	4.15%
Volatility factor of the future expected market price	80%
Dividend yield	0%
Weighted average expected life of the options	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, 2003, 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:

Primary Stock Option Plan	Number of Options	Canadian dollars
		Weighted Avg. Exercise Price
Outstanding at December 31, 2002	2,571,455	\$ 1.35
Granted	40,000	\$ 0.88
Exercised	-	\$ -
Cancelled/Expired	(391,958)	\$ 1.64
Outstanding at March 31, 2003	2,219,497	\$ 1.27
Options exercisable at March 31, 2003	1,251,945	\$ 1.32
Options available for issuance at March 31, 2003	874,303	

In February 2003 the Company granted 30,000 options to a consultant. These options are recorded as deferred stock compensation and contributed surplus on the date of grant and are being expensed over the vesting period of 12 months.

Second Stock Option Plan	Number of Options	Canadian dollars
		Weighted Avg. Exercise Price
Outstanding at December 31, 2002 and March 31, 2003	450,000	\$ 5.25
Options exercisable at March 31, 2003	450,000	\$ 5.25

Third Stock Option Plan	Number of Options	Canadian dollars
		Weighted Avg. Exercise Price
Outstanding at December 31, 2002 and March 31, 2003	100,000	\$ 3.89
Options exercisable at March 31, 2003	66,000	\$ 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 includes 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,	
	2003	2002
Net revenue:		
Americas	\$ 637,439	\$ 890,830
Asia	122,889	164,005
Europe	184,468	68,536
Middle East	75,413	26,377
Other	86,357	42,046
Total revenue	\$ 1,106,566	\$ 1,191,794

5. COMMITMENTS

As at March 31, 2003 the Company has commitments to purchase approximately \$1,198,053 of inventory.

6. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current period.

www.bioscript.com

bioscript™

Stock Exchange Listing - The Toronto Stock Exchange (TSX:BYT)
Investor Relations Contact: investor@bioscript.com