



FIRST QUARTER REPORT

bioscrypt interim report 2005

Fellow Shareholders,

As we enter a new year, I am increasingly encouraged by our prospects to grow our business. Results for the first quarter represent unprecedented benchmarks from a number of perspectives. Primarily, as sales are beyond those generated in the third quarter of last year, I believe we are reaching a point in the maturation of the commercial biometric industry that has been anticipated for some time. The industry is edging ever closer to a point where Bioscrypt will be able to generate sequential growth not only within a year but continuously quarter over quarter.

Increasing market share and expanding sales continue to be our primary objectives. Generating revenue that was 50 percent greater than the same period last year indicates that we are executing to that end. This result is supported by a 104 percent increase in unit sales of our embedded solutions and a 34 percent increase in unit sales of our finished readers in relation to Q1 2004. License sales also grew in the quarter. We anticipate further development of this business segment going forward and maintain our confidence that it will generate 10 percent of overall revenue for the year.

Our goal is to continue to deliver growth in the 40 percent to 50 percent range on an annual basis and we are committed to doing so in a fashion that does not perpetuate operating losses. In the quarter there were a number of projects that we considered to be of tremendous future value and moving forward on these required that we invest beyond what we had originally planned. However, we have already implemented initiatives to reduce these expenses and we remain focused on ending the year in a positive operating position.

The event in the period that will have the greatest impact on the future direction of the company is obvious. The acquisition of Cognizance has significantly elevated Bioscrypt's value proposition. With the new software offerings, we have expanded our addressable market considerably, providing ourselves with an even greater opportunity to expand sales. With approximately US\$150,000 in deferred licensing revenue for the quarter, we are seeing early benefits of our Cognizance acquisition and the immediate impact of that business in delivering high margin licensing revenue.

In addition, the work that we had been doing with Cognizance prior to the acquisition generated significant industry acclaim. In January, Bioscrypt was recognized as the biometric access control leader by Frost & Sullivan, an independent industry analyst firm. This nomination recognizes the extended reach of our offerings, moving beyond our traditional physical access control and time and attendance markets to encompass a more global access control solution.

Further to the advancement of our licensing business, we believe that sales of our embedded solutions, the MV-Series, to original equipment manufacturers (OEM) will be a significant contributor to our growth. In the quarter we announced a design win where our MV 1200 has been integrated with eko system's perioperative clinical information management system. The biometric component of this offering, already sold to Inova Fair Oaks Hospital, is used to verify clinician access to the system. This is but one example of how biometrics can add tremendous value in areas where security and privacy are of paramount importance.

With respect to our Veri-Series development, we are pleased to see two years of effort by Group 4 come to fruition with a successful sale to the Arab National Bank. This positive event not only gives Bioscrypt a strong reference account in the region but a significant channel partner through whom new sales opportunities will be uncovered.

It is my privilege to work with an outstanding team of individuals and I would like to thank them for their efforts and also thank our shareholders and other business partners for their support. I look forward to reporting on our progress in the months ahead.

Sincerely,

Robert L. Williams, *President and CEO*

Management's DISCUSSION AND ANALYSIS

The following is a discussion and analysis of the interim unaudited consolidated financial position, results of operations and cash flows of Bioscrypt Inc. for the three months ended March 31, 2005 and should be read in conjunction with the discussion and analysis of the consolidated financial position, results of operations and cash flows for the year ended December 31, 2004 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 and analysis has been prepared in conformance with the recent guidelines issued by the Canadian Securities Administrators ("CSA") relating to continuous disclosure - National Instrument 51-102 Continuous Disclosure Obligations.

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.

Three Year Financial Information Comparison

Years Ended Dec. 31	2004	2003	2002
<i>\$'000 US except per share amounts</i>			
Revenue	12,454	8,757	6,449
Net loss	(2,367)	(3,265)	(5,895)
Total assets	25,656	17,718	15,555
Long-term liabilities	Nil	3,333	69
Cash dividends declared	Nil	Nil	Nil
Shares outstanding	55,198,197	44,677,824	43,833,518
Loss per share basic and diluted	\$ (0.05)	\$ (0.07)	\$ (0.14)

CAPABILITY TO DELIVER RESULTS

Capital Resources and Liquidity

In the first quarter of fiscal 2005 the Company completed the acquisition of Cognizance Corporation of Dublin, California for total consideration of \$6.80 million, comprised of \$6.05 million in common shares of the Company and \$0.47 million in cash and including acquisition costs of approximately \$0.28 million. At March 31, 2005, Bioscrypt had cash of approximately \$11.42 million, versus \$12.06 million at December 31, 2004; virtually all of the cash used during the quarter was a result of the Cognizance acquisition.

For the period ended March 31, 2005, non-cash working capital decreased by approximately \$1.56 million relative to December 31, 2004. Accounts receivable decreased by \$0.39 million net to \$2.55 million. This change consists of a decrease of \$0.60 million in operations offset by the acquisition of \$0.21 million receivables from Cognizance Corporation. The decrease is primarily a result of the lower revenue in the first quarter of 2005 (\$3.50 million) versus the fourth quarter of 2004 (\$3.95 million) plus positive collection efforts. Inventory increased by \$0.34 million to \$2.18 million. The Company has decided to terminate its current relationship with its contract manufacturer in favour of manufacturing printed circuit board assemblies ("PCBA's") in Asia and performing final assembly in-house. Bioscrypt anticipates that this change will generate additional cost savings and will provide more flexibility in its build schedule, as well as eventually reduce the carrying cost of inventory. However,

during the transition to this model, additional finished goods inventory will be maintained as a safety stock. Prepaids and deposits increased by \$0.25 million to \$0.53 million. The largest component of this increase is a deposit of \$0.13 million towards the purchase of new accounting software which will become operational over the next few months. Accounts payable and accrued liabilities increased by \$1.70 million to \$3.06 million. A significant portion of this increase, \$0.80 million, is as a direct result of the Cognizance Corporation acquisition and consists of liabilities acquired and professional fees payable. The remaining increase of \$0.90 million is comprised primarily of \$0.85 million payable to our contract manufacturer as part of the aforementioned inventory transition. Also contributing to the increase in accounts payable and accrued liabilities is a bonus accrual for employees of \$0.18 million which was not included in the balance at December 31, 2004 as the 2004 bonus was paid out in December. Deferred revenue increased by \$0.14 million: \$0.15 million was acquired through Cognizance Corporation.

For the period ended March 31, 2005 Bioscrypt invested approximately \$0.07 million in capital assets. These purchases primarily relate to computer hardware and software.

Financing activities in the period ended March 31, 2005 related to the exercise of employee stock options for a total of \$0.01 million.

Commitments

At December 31, 2004 the Company was committed to \$1.16 million in operating lease payments for premises and equipment. On February 24, 2005 the Company finalized an Offer to Lease for new corporate premises in Markham, Ontario, effective June 1, 2005 and for a term of sixty-six months, which will add approximately \$1.37 million of additional lease commitments. Lease payments due within one year are \$0.51 million. Lease payments due in one to three years are \$1.47 million. Lease payments due in four to five years are \$0.53 million.

As at March 31, 2005 the Company has commitments to purchase approximately \$1.60 million of inventory over the next four months.

RESULTS

Quarterly Financial Information

	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue	\$ 3,504	\$ 2,336
Cost of revenue	1,977	1,306
Gross margin	1,527	1,030
Operating expenses	2,642	1,860
Loss from operations	(1,115)	(830)
Amortization	81	53
Loss before other	(1,195)	(883)
Other (1)	(21)	(434)
Net loss	\$ (1,216)	\$ (1,317)
Loss per share –		
basic and diluted	\$ (0.02)	\$ (0.03)
Common shares		
outstanding a March 31	58,918,482	53,242,058

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

Revenues

For the three-month period ended March 31, 2005 revenues were \$3.50 million, an increase of \$1.17 million or 50% from the same period in the prior year. First quarter sales have historically been lower than the third and fourth quarters of the preceding year. This year, however, first quarter revenue is 6 percent higher than the third quarter of 2004. This growth profile is evidence that the market is maturing and becoming less seasonal. In time, as the market evolves, we believe that sequential quarter over quarter growth can be achieved.

As with every period, revenue for the quarter is derived by sales through the Company's distribution channel of more than 140 partners. Strategic new end users that were announced in the quarter include: the Arab National Bank, through our partner Group 4 Nesma; and Inova Fair Oaks Hospital who is using Bioscrypt technology built into a keyboard manufactured by eko Systems. Having achieved our revenue goal for the quarter, management remains confident that annual revenue growth of 40% - 50% over fiscal 2004 is achievable.

Product revenue, for the three-month period ended March 31, 2005, accounted for 98% of total revenue, with the balance representing software license, royalty and services revenue. This is consistent with the same period in the prior year. Although licensing represented a nominal amount of revenue in the quarter, management maintains that approximately 10% of revenue for the year will be generated from licensing. Further, the Company presently has deferred revenue of \$0.14 million in

licensing revenue generated by the Cognizance acquisition that will be recognized in future quarters.

In terms of product sales, the Veri-Series product line and embedded solutions increased significantly in terms of units shipped and dollar sales over the same period in the prior year. In the period ended March 31, 2005 the Company shipped 3,366 units of the Veri-Series product line. This represents a 34% increase over the same period in the prior year. Revenue for the Veri-Series product line represented 58% of total product sales. In the period ended March 31, 2005 the Company shipped 6,675 units of the embedded solution. This represents a 104% increase over the same period in the prior year.

International growth continues to be a primary goal for Bioscrypt in 2005 and beyond. As a percentage of sales, revenue outside of the Americas declined to 27% in 2005 from 29% in 2004; overall revenue increased by approximately \$0.27 million. The Company still 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.

The concentration of key customers has remained relatively consistent from year to year. For the three months ended March 31, 2005 and 2004, one customer accounted for approximately 18% and 15% respectively of the Company's total revenue. In addition, Bioscrypt's five largest customers accounted for 38% and 35% respectively of the Company's total revenue for the periods ended March 31, 2005 and 2004.

Cost of Revenues and Gross Margin

Cost of revenues consists primarily of hardware manufacturing costs, related shipping charges and commissions. For the three month period ended March 31, 2005 gross margin increased 48% or \$0.50 million relative to the comparable period in the prior year. This increase was a result of the increase in product sales. As a percentage, gross margin was consistent at 44% of sales. Hardware margin was relatively consistent with the prior year, moving from 43% in the three month period ended March 31, 2004 to 43% in the three month period ended March 31, 2005.

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 \$0.82 million for the period ended March 31, 2005 compared to approximately \$0.45 million for the comparable period in the prior year. This significant increase is primarily due to two factors: an increase in specific research and development activities requiring both an increase in headcount as well as an increased level of engineering consulting; and the acquisition of Cognizance Corporation which increased the size of our team of developers.

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 \$1.64 million for the three months ended March 31, 2005 compared to approximately \$1.34 million for the comparable period in the prior year. The increase is primarily due to increased travel in the period as compared to the three months ended March 31, 2004, as well as an increase in headcount. As a percentage of sales, selling, general and administration expenses decreased from 57% in the three month period ended March 31, 2004 to 47% in the current year.

Stock compensation for the period ended March 31, 2005 was \$0.18 million versus \$0.07 million in the comparable period in the prior year.

Amortization for the period ended March 31, 2005 was \$0.08 million versus \$0.05 million in the comparable period in the prior year. The difference is due to the amortization of intangibles associated with the acquisition of core technology from Areté Associates in the December of 2004; there was no comparable amount in the first quarter of 2004.

Other: Interest income was approximately \$0.06 million for the period ended March 31, 2005, which was consistent with the prior year. Finally, the Company incurred approximately \$0.08 million of foreign exchange loss for the current period versus a gain of \$0.21 million for the same period in the prior year. The decrease is due to the slight devaluation of the Canadian dollar during the first quarter of 2005 compared with an increase in value in the same period in 2004.

Other Information

Additional information related to the Company can be found on SEDAR at www.sedar.com.

.....

Consolidated Statements of EARNINGS AND DEFICIT

<i>(Unaudited)</i> <i>(in U.S. dollars)</i>	Three months ended March 31, 2005	Three months ended March 31, 2004
Revenue		
Product sales	\$ 3,433,477	\$ 2,291,173
License, royalties and services	70,523	44,771
	3,504,000	2,335,944
Cost of Revenue		
Product sales	1,976,641	1,305,930
Gross Margin	1,527,359	1,030,014
Expenses		
Research and development	799,334	445,840
Selling, general and administration	1,711,447	1,341,839
Stock compensation	184,488	72,540
	2,695,269	1,860,219
Loss Before Amortization and Other	(1,167,910)	(830,205)
Amortization		
Fixed assets	56,574	52,705
Intangibles	24,119	-
	80,693	52,705
Loss Before Other	(1,248,603)	(882,910)
Other		
Interest income	62,376	57,691
Interest expense	(201)	(704,735)
Foreign exchange (loss) gain	(82,883)	213,385
	(20,708)	(433,659)
Net Loss	(1,269,311)	(1,316,569)
Deficit Beginning of Period	(37,149,734)	(34,782,357)
Deficit End of Period	\$ (38,419,045)	\$ (36,098,926)
Loss per share basic and diluted	\$ (0.02)	\$ (0.03)
Basic and diluted weighted average number of shares	56,643,930	47,774,578

Consolidated BALANCE SHEETS

<i>(Unaudited)</i> <i>(in U.S. dollars)</i>	March 31, 2005	December 31, 2004
Assets		
Current		
Cash	\$ 11,416,145	\$ 12,056,981
Accounts receivable	2,550,133	2,937,402
Inventory	2,182,629	1,843,635
Prepaid expenses and deposits	525,135	270,529
	16,674,042	17,108,547
Fixed Assets	596,062	577,285
Intangibles	15,194,427	7,970,409
	\$ 32,464,531	\$ 25,656,241
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 3,056,090	\$ 1,357,271
Deferred revenue	169,451	28,480
Deferred tenant inducement	27,111	32,532
	3,252,652	1,418,283
Shareholders' Equity		
Share capital (note 3)	65,795,009	59,736,265
Warrants	59,420	59,420
Contributed surplus	1,776,495	1,592,007
Deficit	(38,419,045)	(37,149,734)
	29,211,879	24,237,958
	\$ 32,464,531	\$ 25,656,241

Consolidated Statements of CASH FLOWS

<i>(Unaudited)</i> <i>(in U.S. dollars)</i>	Three months ended March 31, 2005	Three months ended March 31, 2004
Net Inflow (Outflow) of Cash Related to the Following Activities:		
Operating		
Net loss	\$(1,269,311)	\$(1,316,569)
Items not affecting cash:		
Amortization:		
Fixed assets	56,574	52,705
Deferred financing costs	-	4,136
Intangibles	24,119	-
Deferred tenant inducement	(5,421)	(8,131)
Secured debentures discount	-	24,552
Write off of deferred financing costs	-	82,721
Write off of secured debentures discount	-	517,722
Gain on foreign currency translation of secured debentures	-	(105,827)
Stock compensation	184,488	72,540
Loss on disposal of fixed assets	-	2,397
	(1,009,551)	(673,754)
Changes in non-cash operating working capital items:		
Accounts receivable	599,608	987,588
Inventory	(338,994)	105,218
Prepaid expenses and deposits	(254,606)	(110,260)
Accounts payable and accrued liabilities	898,759	(398,194)
Deferred revenue	(7,368)	-
	(112,152)	(89,402)
Investing		
Purchase of fixed assets	(73,752)	(25,565)
Acquisition net of cash acquired	(465,856)	-
	(539,608)	(25,565)
Financing		
Issuance of common shares	10,924	13,646,733
Issuance costs of common shares	-	(1,047,841)
Repayment of secured debentures	-	(3,733,500)
	10,924	8,865,392
Net (decrease) increase in cash	(640,836)	8,750,425
Cash Beginning of Period	12,056,981	5,680,745
Cash End of Period	\$11,416,145	\$14,431,170

Supplementary Information

Interest paid during the period	\$ 201	\$ 105,952
Interest received during the period	\$ 62,376	\$ 57,691

Notes to the Interim CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005 (Unaudited) (in U.S. dollars)

1. BASIS OF PRESENTATION

These interim unaudited consolidated financial statements include the accounts of Bioscrypt Inc. ("Bioscrypt" 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, 2005.

The accounting policies used in the preparation of these interim unaudited consolidated financial statements are consistent with those used in preparing the annual consolidated 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, 2004, as set out in the 2004 Annual Report. Note disclosures have been presented for material updates to the information previously reported.

2. ACQUISITION

On March 3, 2005, the Company acquired all of the outstanding shares of Cognizance Corporation of Dublin, California. The total purchase price was \$6,803,273, comprised of the issuance of 3,706,785 common shares with a value of \$6,047,820, cash consideration of \$471,329 and acquisition related costs of \$284,124. The acquired business included, at fair value, \$217,812 of current assets (including cash of \$5,473), \$1,599 of fixed assets, and \$664,275 of liabilities. The difference between the total purchase price and the net fair value of all identifiable assets and liabilities acquired, net of acquisition costs, was \$7,248,137 and is accounted for as intangible assets. The Company is in the process of allocating the intangible assets and goodwill acquired and will begin amortizing any definite lived intangible assets over the estimated useful life of the respective acquired intangible asset, once the allocation is complete.

In addition, the shareholders of Cognizance Corporation will be entitled to receive additional consideration of up to \$5,000,000 if the Cognizance Corporation business achieves certain pre-determined gross margin thresholds over the course of 2005. There is a further \$455,000 to be paid that represents an indemnification against certain intellectual property claims. Both of these contingent amounts will be paid in 2006, dependant on the outcome of the contingent events, and will be satisfied in the form of additional shares of the Company.

3. SHAREHOLDERS' EQUITY

	Number	Amount
Balance, December 31, 2004	55,198,197	\$ 59,736,265
Options exercised	13,500	10,924
Common shares issued (Note 2)	3,706,785	6,047,820
Balance, March 31, 2004	58,918,482	\$ 65,795,009

Fixed stock option plans

The Company has three fixed stock option plans. For stock options granted to employees, the fair value of each option granted was estimated using the Black-Scholes option-pricing model on the date of the grant using the following assumptions:

Risk-free interest rate	3.58 - 3.75%
Volatility factor of the future expected market price	73 - 74%
Dividend yield	0%
Weighted average expected life of the options	4 years

A summary of the changes during the three month period ended March 31, 2005, 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:

	Canadian dollars	
Primary Stock Option Plan	Number of Options	Weighted Avg. Exercise Price
Outstanding at December 31, 2004	3,259,746	\$1.68
Granted	533,000	\$2.06
Exercised	(13,500)	\$1.00
Cancelled/Expired	(53,400)	\$2.14
Outstanding at March 31, 2005	3,725,846	\$1.73
Options exercisable at March 31, 2005	2,210,996	\$1.59
Options available for issuance at March 31, 2005	1,114,080	

	Canadian dollars	
Second Stock Option Plan	Number of Options	Weighted Avg. Exercise Price
Outstanding and exercisable at December 31, 2004	450,000	\$ 5.25
Cancelled/Expired	(450,000)	\$ 5.25
Outstanding at March 31, 2005	-	

	Canadian dollars	
Third Stock Option Plan	Number of Options	Weighted Avg. Exercise Price
Outstanding and exercisable at December 31, 2004 and March 31, 2005	100,000	\$ 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. The majority of 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,	2005	2004
Net revenue:		
Americas	\$ 2,559,517	\$ 1,666,438
Asia	287,138	151,236
Europe	446,795	327,727
Middle East	162,233	149,420
Other	48,317	41,123
Total revenue	\$ 3,504,000	\$ 2,335,944

5. COMMITMENTS

As at March 31, 2005 the Company has commitments to purchase approximately \$1,600,000 of inventory over the next four months.

On February 24, 2005, the Company finalized an Offer to Lease for new corporate premises in Markham, Ontario. The lease is effective June 1, 2005, and extends for a term of sixty-six months, adding approximately \$1,370,000 of total additional lease commitments. Commitments for premises and equipment with minimum future lease payments are as follows:

2005	\$ 517,550
2006	627,157
2007	582,661
2008	277,179
2009	275,497
	\$ 2,280,044