bioscrypt™

SECOND QUARTER REPORT

bioscrypt interim report **2005**

Fellow Shareholders,

As the year 2005 transitions from the first half to the second, there have been many successes to celebrate and some hurdles to overcome. We have seen a great number of new and exciting opportunities presented to us while we have also had the unfortunate experience of unexpected delays with certain initiatives.

In reporting first-half revenue of US$7.02 million, we have seen an increase in revenue of approximately 35% over the same period last year. Our sales in the quarter represent the second highest revenues in the company's history, and indicate that forward momentum continues in the market, enabling us to generate respectable growth. However, we remain somewhat frustrated by market delays in the adoption rate of biometric technology.

Those who are familiar with Bioscrypt and know the market in which we operate, look forward to the time when biometrics will become the ubiquitous technology used for verification. The question is not one of if but when?

With a set of products that dominate the biometric physical access control market and advanced modules for original equipment manufacturers, all backed by our industry recognized leading fingerprint verification algorithm, we have a strong business and presence in the industry.

Further, we have begun to penetrate a new market with initial deployments of our Identity Management software. The licensing revenue that was generated in Q2 is an early indication of how we will generate high margin sales by selling a solution that allows organizations to replace passwords and personal identification numbers for access to their computer network with a fingerprint. VeriSoft Access Manager is evidence of our commitment to expand our offerings and address new markets ahead of the curve.

In the quarter we also signed a partnership agreement with Datastrip, a leading provider of biometric verification devices, whereby they will be licensing our technology in an effort to support the verification of a wide variety of identity documents ranging from employee ID badges to cards used for federal security initiatives such as US-Visit, Transportation Worker ID Card (TWIC) and Canadian Air Transport Security Authority (CATSA) programs.

Among the many sales that were generated was the highly publicized implementation for the City of Chicago within their 911 Centre. We believe there is potential for this to expand to all facilities where cards are used for access control across the city.

Kronos continues to be our largest customer and demand for our technology continues to rise in the important Time & Attendance market. A recent study performed by Nucleus Research has discovered that by using terminals that incorporate the Bioscrypt MV 1200, organizations can save 2.2 percent of gross payroll annually due to the elimination of "buddy punching". To put that in perspective, for an organization of 5,000 employees, a company can save more than $4 million annually. Clearly a significant return on investment.

At the completion of the quarter, on the 29th of June, we announced that Borden Rosiak had been appointed to the board and elected Chairman of the Audit Committee. Presently serving as Chief Financial Officer at Crystallex International Corporation, Mr. Rosiak has held numerous other Chief Financial Officer positions, including Dorset Partners, a private investment firm, and Newcourt Credit Group, a C$25 billion global financial services company. He also served as the Chief Financial Officer of the Toronto 2008 Olympic Bid Committee, and has been a board member of several public, private and not-for-profit organizations throughout his career. Borden replaces John Albright, who has resigned from the Board due to other commitments.

Bioscrypt will continue to make the necessary investments to diversify our product offering, not only for the immediate benefit of high margin licensing revenue in the short term but more importantly to address the future demand for enterprise scale Door to Desktop biometric deployments. It is still our objective to increase the contribution of our software business and we expect licensing to contribute at least US$1 million for the year.

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 six months ended June 30, 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
$000 US except per share amounts			
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 of Dublin, California for total consideration of $6.77 million, comprised of $6.05 million in common shares of the Company and $0.47 million in cash and including acquisition costs of $0.25 million. At June 30, 2005, Bioscrypt had cash of approximately $9.63 million, versus $12.06 million at December 31, 2004: the most significant amounts of cash were used for the Cognizance acquisition and inventory spending. $0.47 million was spent to acquire Cognizance, and a further $0.64 million was spent on acquisition costs and payment of payables acquired from Cognizance. A further $0.62 million was spent on both component and finished goods inventory to prepare for the transition to in-house assembly.

For the six-month period ended June 30, 2005, non-cash working capital from operations decreased by approximately $1.47 million relative to December 31, 2004. Accounts receivable decreased by $0.35 million to $2.59 million. This change consists of a decrease of $0.56 million from normal operations, offset by $0.21 million from the acquisition of Cognizance in the first quarter of 2005. The decrease of $0.56 million is consistent with the change in sales from quarter to quarter: in the fourth quarter of 2004 sales were $3.95 million, while for the second quarter of 2005 sales were $3.51 million. Inventory increased by $0.62 million to $2.47 million. The Company decided in January 2005 to terminate its 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, as we continue to transition to this model, additional finished goods inventory is being maintained as a safety stock. Prepaids and deposits increased by $0.04 million to $0.31 million. The increase is largely attributable to additional deposits made to new component suppliers. Accounts payable and accrued liabilities increased by $1.52 million to $2.88 million. A significant portion of this increase, $0.70 million, is a direct result of the Cognizance acquisition. Of the liabilities acquired, $0.39 million have subsequently been settled. The remaining increase of $0.82 million is primarily related 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 $0.24 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 $0.12 million: $0.15 million was acquired through Cognizance, and the balance was recognized in the period.

For the six-month period ended June 30, 2005 Bioscrypt invested approximately $0.30 million in capital assets. These purchases primarily consist of leasehold improvements on the new office space in Markham, along with computer hardware and software purchases. This office relocation will accommodate the transition to in-house assembly while at the same time provide savings of approximately $0.10 million per year in premises expense.

The minimal financing activities in the six-month period ended June 30, 2005 were related to the exercise of employee stock options for $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 adds approximately $1.37 million of additional lease commitments. Lease payments due in one to three years are $1.55 million. Lease payments due in four to five years are $0.55 million.

As at June 30, 2005 the Company has commitments to purchase approximately $2.14 million of inventory over the next four months.

RESULTS

Quarterly Financial Information

(Unaudited) *(In $ 000 US except per share amounts)*	Three months ended June 30, **2005**	2004	Six months ended June 30, **2005**	2004
Revenue	**$ 3,511**	$ 2,864	**$ 7,015**	$ 5,200
Cost of revenue	**1,918**	1,617	**3,894**	2,923
Gross margin	**1,593**	1,247	**3,121**	2,277
Operating expenses	**2,763**	2,095	**5,459**	3,955
Loss from operations	**(1,170)**	(848)	**(2,338)**	(1,678)
Amortization	**700**	51	**781**	104
Loss before other	**(1,870)**	(899)	**(3,119)**	(1,782)
Other (1)	**(99)**	(181)	**(119)**	(615)
Net loss	**$ (1,969)**	$ (1,080)	**$ (3,238)**	$ (2,397)
Loss per share – basic and diluted	**$ (0.03)**	$ (0.02)	**$ (0.06)**	$ (0.05)
Common shares outstanding at June 30	**58,921,782**	54,145,938	**58,921,782**	54,145,938

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

Revenues

For the three-month period ended June 30, 2005 revenues were $3.51 million, an increase of $0.65 million or 23% from the same period in the prior year. Sequential growth in the quarter was limited primarily due to the delay in some large hardware deals that were expected to close in the second quarter. Management believes that some of these deals will not close during this fiscal year and will be delayed until 2006. The adoption rate of biometrics continues to be the greatest challenge and one that is shared across the industry as evidenced by Bioscrypt's competitors recently disclosing weaker than expected results.

Management is encouraged by the increased licensing revenue component that is attributable to the introduction on the VeriSoft product, however, our OEM channel did not meet the levels anticipated and thus revenues are slightly below expectations. As a result of these factors, management believes it is prudent to revise our annual revenue growth target to 25-35% over 2004 revenue, as opposed to the previously disclosed range of 40-50%. Management continues to reiterate that this revised forecast is purely a timing issue, and continues to maintain its strong conviction as to the revenue potential for Bioscrypt technology in the years ahead as the market continues to mature.

With respect to product sales, the Veri-Series product line and the embedded solution both increased in terms of units shipped and dollar sales over the prior year for the three and six month periods ended June 30, 2005. Revenue for the Veri-Series product line represented 52% and 54% of total product sales for the respective three and six month periods ended June 30, 2005. This compares to 53% and 59% in the respective prior periods ending June 30, 2004. In the three month period ended June 30, 2005 the Company shipped 3,140 units of the Veri-Series product line. This represents a 25% increase over the same period in the prior year. For the six month period ended June 30, 2005 the Company shipped 6,505 units of the Veri-Series product line. This represents a 29% increase over the same period in the prior year. The growth of the Veri-Series product is largely in line with our expectations.

In the three month period ended June 30, 2005 the Company shipped 7,105 units of the embedded solution, a 7% increase over the same period in the prior year. For the six month period ended June 30, 2004 the Company shipped 13,780 units of the embedded solution, a 39% increase over the same period in the prior year. While demand for the embedded solution continues to be strong and OEM's are considering new designs to incorporate this product, the MV-Lite, which was launched in March of 2004, has not met expectations. To address this situation, plans are in place to introduce a product with a feature set to meet the new demands of the market.

Revenues from sales outside of the Americas represented 32% and 37% respectively for the three months ended June 30, 2005 and 2004. For the six months ended June 30, 2005 and 2004 sales to outside of the Americas represented 30% and 33% respectively.

Revenues from sales outside of the Americas have increased by approximately $0.06 million and $0.34 million for the respective three and six month periods ended June 30, 2005. Growing Bioscrypt's presence internationally remains a primary objective for the company. We believe there will be greater contribution from international sales in the second half of the year and beyond.

For the three month period ended June 30, 2005 one customer accounted for approximately 21% of the Company's total revenue while the same customer accounted for 15% for the comparable period in the prior year. For the six month period ended June 30, 2005 this customer accounted for approximately 20% of the Company's total revenue as compared to 15% in the comparable period in the prior year. For the six month period ended June 30, 2005 and 2004 Bioscrypt's five largest customers accounted for approximately 36% and 32% of the Company's total revenue.

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 June 30, 2005 gross margin increased 28% or $0.35 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 increased slightly to 45% of sales, up 1% from 44% for the comparable period in the prior year. This was primarily due to an increased proportion of licensing revenue; however hardware margin was also slightly higher than the prior year, moving from 42% in the three-month period ended June 30, 2004 to 43% in the three-month period ended June 30, 2005. Management anticipates that product gross margin will begin to increase in Q3 as the cost-saving effects of the recent manufacturing changes take effect. It is expected that these margins will increase by at least one percentage point in Q3 and another one to two percentage points in the fourth quarter.

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 $0.86 million for the three-month period ended June 30, 2005 compared to approximately $0.41 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 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 $1.67 million for the three-months ended June 30, 2005 compared to approximately $1.40 million for the comparable period in the prior year. The increase is primarily due to an increase in headcount as compared to the three-months ended June 30, 2004, along with the write-off of the remaining leaseholds at the Mississauga location.

Stock compensation for the three-month period ended June 30, 2005 was $0.23 million versus $0.28 million in the comparable period in the prior year.

Amortization for the period ended June 30, 2005 was $0.70 million versus $0.05 million in the comparable period in the prior year. This significant difference is due to the amortization of acquired intangibles: all of the intangibles resulting from the acquisition of Cognizance have been determined to be acquired technology, and as such, will be amortized over the expected useful life of four years; plus the amortization of core technology purchased from Areté Associates in December 2004.

Other. Interest income was approximately $0.06 million for the three-month period ended June 30, 2005. This was somewhat higher than the $0.03 million recorded for the same period in 2004 due to higher return on the investments. Finally, the Company incurred approximately $0.16 million of foreign exchange loss for the current period versus $0.21 million for the same period in the prior year. In both periods there was a slight devaluation of the Canadian dollar.

Other Information

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

Consolidated Statements of EARNINGS AND DEFICIT

(Unaudited) *(in U.S. dollars)*	**Three months ended June 30, 2005**	2004	**Six months ended June 30, 2005**	2004
Revenue				
Product sales	**$ 3,339,632**	$ 2,783,570	**$ 6,773,109**	$ 5,054,999
License, royalties and services	**171,616**	81,009	**242,139**	145,524
	3,511,248	2,864,579	**7,015,248**	5,200,52
Cost of Revenue				
Product sales	**1,917,742**	1,611,599	**3,894,383**	2,917,529
License, royalties and services	**–**	5,804	**–**	5,804
	1,917,742	1,617,403	**3,894,383**	2,923,333
Gross Margin	**1,593,506**	1,247,176	**3,120,865**	2,277,190
Expenses				
Research and development	**861,000**	410,856	**1,660,334**	856,696
Selling, general and administration	**1,670,899**	1,404,689	**3,382,346**	2,746,528
Stock compensation	**231,291**	279,136	**415,779**	351,676
	2,763	2,094,681	**5,458,459**	3,954,900
Loss Before Amortization and Other	**(1,169,684)**	(847,505)	**(2,337,594)**	(1,677,710)
Amortization				
Fixed assets	**61,334**	51,215	**117,908**	103,920
Intangible assets	**638,919**	–	**663,038**	–
	700,253	51,215	**780,946**	103,920
Loss Before Other	**(1,869,937)**	(898,720)	**(3,118,540)**	(1,781,630)
Other				
Interest income	**57,322**	29,798	**119,698**	87,489
Interest expense	**(178)**	(1,401)	**(379)**	(706,136)
Foreign exchange (loss) gain	**(155,930)**	(209,702)	**(238,813)**	3,683
	(98,786)	(181,305)	**(119,494)**	(614,964)
Net Loss	**(1,968,723)**	(1,080,025)	**(3,238,034)**	(2,396,594)
Deficit Beginning of Period	**(38,419,045)**	(36,098,926)	**(37,149,734)**	(34,103,954)
Change in accounting policy	**–**	–	**–**	(678,403)
Deficit End of Period	**(40,387,768)**	(37,178,951)	**(40,387,768)**	(37,178,951)
Loss Per Share Basic and Diluted	**$ (0.03)**	$ (0.02)	**$ (0.06)**	$ (0.05)
Basic and diluted weighted average number of shares	**58,921,347**	53,398,908	**57,788,930**	50,586,743

Consolidated BALANCE SHEETS

(Unaudited) *(in U.S. dollars)*	**June 30, 2005**	December 31, 2004
Assets		
Current		
Cash	**$ 9,629,107**	$ 12,056,981
Accounts receivable	**2,586,463**	2,937,402
Inventory	**2,465,131**	1,843,635
Prepaid expenses and deposits	**305,956**	270,529
	14,986,657	17,108,547
Fixed Assets	**948,919**	577,285
Intangible Assets (Note 3)	**14,768,702**	7,970,409
	$ 30,704,278	$ 25,656,241
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	**$ 2,881,120**	$ 1,357,271
Deferred revenue	**147,344**	28,480
Current portion of deferred tenant inducement	**56,616**	32,532
	3,085,080	1,418,283
Deferred Tenant Inducement	**141,132**	–
	3,226,212	1,418,283
Shareholders' Equity		
Share capital (Note 4)	**65,798,628**	59,736,265
Warrants	**59,420**	59,420
Contributed surplus	**2,007,786**	1,592,007
Deficit	**(40,387,768)**	(37,149,734)
	27,478,066	24,237,958
	$ 30,704,278	$ 25,656,241

Consolidated Statements of CASH FLOWS

(Unaudited) *(in U.S dollars)*	**Three months ended June 30, 2005**	2004	**2005** Six months ended June 30,	2004
Net Inflow (Outflow) of Cash Related to the Following Activities:				
Operating				
Net loss	**$ (1,968,723)**	$ (1,080,025)	**$ (3,238,034)**	$ (2,396,594)
Items not affecting cash:				
Amortization:				
Fixed assets	**61,334**	51,215	**117,908**	103,920
Deferred financing costs	–	–	**–**	4,136
Intangible assets	**638,919**	–	**663,038**	–
Deferred tenant inducement	**(31,445)**	(8,132)	**(36,866)**	(16,263)
Secured debentures discount	**–**	–	**–**	24,552
Write off of previous leasehold improvements	**37,634**	–	**37,634**	–
Write off of previous deferred tenant inducement	**(27,111)**	–	**(27,111)**	–
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	**231,291**	279,136	**415,779**	351,676
Loss on disposal of fixed assets	**105**	–	**105**	2,397
	(1,057,996)	(757,806)	**(2,067,547)**	(1,431,560)
Changes in non-cash operating working capital items:				
Accounts receivable	**(36,330)**	(518,199)	**563,278**	469,389
Inventory	**(282,502)**	(116,561)	**(621,496)**	(11,343)
Prepaid expenses and deposits	**219,179**	(62,159)	**(35,427)**	(172,419)
Accounts payable and accrued liabilities	**(174,970)**	179,383	**723,789**	(218,811)
Deferred revenue	**(22,107)**	–	**(29,475)**	–
	(1,354,726)	(1,275,342)	**(1,466,878)**	(1,364,744)
Investing				
Purchase of fixed assets	**(222,737)**	(19,930)	**(296,489)**	(45,495)
Purchase of intangible assets	**(213,194)**	–	**(213,194)**	–
Acquisition net of cash acquired	**–**	–	**(465,856)**	–
	(435,931)	(19,930)	**(975,539)**	(45,495)
Financing				
Issuance of common shares	**3,619**	424,481	**14,543**	14,071,214
Issuance cost of common shares	**–**	–	**–**	(1,047,841)
Repayment of secured debentures	**–**	–	**–**	(3,733,500)
	3,619	**424,481**	**14,543**	**9,289,873**
Net (decrease) increase in cash	**(1,787,038)**	(870,791)	**(2,427,874)**	7,879,634
Cash Beginning of Period	**11,416,145**	14,431,170	**12,056,981**	5,680,745
Cash End of Period	**$ 9,629,107**	$ 13,560,379	**$ 9,629,107**	$ 13,560,379
Supplementary Information				
Interest paid during the period	**$ 178**	$ 1,401	**$ 201**	$ 107,353
Interest received during the period	**$ 57,322**	$ 29,798	**$ 119,698**	$ 87,489
Fixed assets acquired through tenant inducement	**$ 229,193**	$ –	**$ 229,193**	$ –

Notes to the Interim CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 of Dublin, California. The total purchase price was $6,771,998, 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 $252,849. The acquired business included, at fair value, $209,812 of current assets (including cash of $5,473), $1,599 of fixed assets, and $743,723 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 $7,304,310. This amount is included with intangible assets as core technology, and is being amortized over its estimated useful life of four years.

In addition, the shareholders of Cognizance will be entitled to receive additional consideration of up to $5,000,000 if the Cognizance business achieves certain pre-determined gross margin thresholds over the course of 2005. There is a further $455,000 potentially 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. INTANGIBLE ASSETS

	Goodwill	Core Technology	Total
Net book value, December 31, 2004	$ 6,978,742	$ 991,667	$ 7,970,409
Additions	-	7,461,331	7,461,331
Amortization	–	(663,038)	(663,038)
Net book value, June 30, 2005	$ 6,978,742	$ 7,789,960	$ 14,768,702

The additions consist of core technology related to the purchase of Cognizance (see Note 2) and other acquired source code. The Company has estimated the useful life of the acquired intangibles which are related to the Cognizance acquisition to be four years, and the useful life of the other acquired intangibles to be ten years.

4. SHARE CAPITAL

	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, 2005	58,918,482	65,795,009
Options exercised	3,300	3,619
Balance, June 30, 2005	58,921,782	$ 65,798,628

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	3.22 – 3.75%
Volatility factor of the future expected market price	72 - 74%
Dividend yield	0%
Weighted average expected life of the options	4 years

A summary of the changes during the six month period ended June 30, 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:

Primary Stock Option Plan	Number of Options	Canadian dollars 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
Granted	342,875	$ 1.92
Exercised	(3,300)	$ 1.33
Cancelled/Expired	(50,225)	$ 3.06
Outstanding at June 30, 2005	4,015,196	$ 1.73
Options exercisable at June 30, 2005	2,362,696	$ 1.60
Options available for issuance at June 30, 2005	821,430	

Second Stock Option Plan	Number of Options	Canadian dollars 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 and June 30, 2005	–	

Third Stock Option Plan	Number of Options	Canadian dollars Weighted Avg. Exercise Price
Outstanding and exercisable at December 31, 2004, March 31, 2005, and June 30, 2005	100,000	$ 3.89

5. 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 June 30,		**Six months ended June 30,**	
	2005	2004	**2005**	2004
Net revenue:				
Americas	**$ 2,382,193**	$ 1,799,011	**$ 4,941,710**	$ 3,465,449
Asia	**359,891**	352,400	**647,029**	503,636
Europe	**272,450**	366,797	**719,245**	694,524
Middle East	**345,701**	214,813	**507,934**	364,233
Other	**151,013**	131,558	**199,330**	172,681
Total revenue	**$ 3,511,248**	$ 2,864,579	**$ 7,015,248**	$ 5,200,523

6. COMMITMENTS

As at June 30, 2005 the Company has commitments to purchase approximately $2,140,000 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 was 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	$ 352,593
2006	623,320
2007	579,017
2008	273,625
2009	271,965
	$ 2,100,520