



bioscrypt™

THIRD QUARTER REPORT

bioscrypt interim report 2005

Fellow Shareholders,

The third quarter was truly a landmark period for Bioscrypt. In addition to being the first quarter in which Bioscrypt broke the US\$4 million revenue threshold, it was also the point when the Company demonstrated that it had moved up the value chain within the biometric market. Now not only a developer of fingerscan matching algorithms and enabler of physical access control readers, the Company can offer a robust solution for identity management.

In the second quarter, Bioscrypt made its initial introduction of VeriSoft Access Manager, the software application purchased from Cognizance. At the time, the Company knew it was on a springboard preparing to launch to an entirely new and greater platform. Validation of this came on September 8th when it was announced that HP had branded this software as HP Credential Manager for Protect Tools and was including it on business PCs, workstations and notebooks configured with a Trusted Platform Module and select other notebooks.

To date, largely through the relationship with HP, Bioscrypt has sold more than one million licenses of this version of its VeriSoft software, seeding the market with our technology to create brand recognition and generate further up-sell opportunities for the server version of the application. To that end we were also pleased to announce that HP will be bringing to market the server version of the VeriSoft product and selling it at prices comparable to application software.

From a strategic perspective, adding Identity and Access Management (IAM) software to our selection of offerings was not only to go after a new market, a market that IDC says will grow to US\$4 billion by 2009, but to position Bioscrypt as a vendor capable of providing biometric authentication for access to computers in addition to its historic ability to do so for physical access within facilities. The convergence of these two technologies, what we call our Door to Desktop™ strategy, presents a unique value proposition to the market and one we are confident will lead the Company to the next level of growth. No other vendor can offer such a flexible and inter-operable solution to combine both physical and logical access security within an enterprise.

In the quarter, sales of VeriSoft Access Manager generated approximately 8 percent of revenue. It is our contention that this high margin licensing revenue will continue to grow as a percentage of overall sales as we extend beyond the initial reference customers and early adopters. VeriSoft Access Manager is sure to be a significant catalyst to the growth of the organization.

On the subject of growth, it was very gratifying to recently learn that Bioscrypt had been recognized as the fifth fastest growing company in Canada based on percentage of growth from 2000-2004 as awarded by the 2005 Deloitte Canadian Technology Fast 50 Program. Since our inception as a biometric company in the year 2000 we have grown by 4,724 percent in our first five years.

This significant growth has not gone unnoticed within the biometrics industry. In the third quarter, Bioscrypt was also recognized as having the largest application market share of the Physical Access Control/Time and Attendance (PAC/TA) market by Frost and Sullivan. This serves as evidence of Bioscrypt's ability to address the demands of a target market. Now that the addressable market has expanded exponentially, we believe we will not only grow our share in PAC/TA but the IAM market as well!

With 31% revenue growth year-to-date we are delivering within the range of our guidance. While this is encouraging, it is the potential for the future and the prospects of gaining further traction as a strong authentication access control vendor in an emerging market that gives me great confidence in the future potential for the Company.

I would like to extend my thanks to our employees, our shareholders and other business partners for their support. I look forward to reporting our year-end results early in 2006.

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. (the "Company") for the nine months ended September 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 contain 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 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 September 30, 2005, Bioscrypt had cash of approximately \$8.09 million, versus \$12.06 million at December 31, 2004; other than cash used to fund operations, the most significant amounts of cash were used for the Cognizance acquisition, leasehold improvements and furniture for the new Markham facility and a new integrated accounting/manufacturing software package. \$0.47 million was spent to acquire Cognizance, and a further \$0.75 million was spent on acquisition costs and payment of payables acquired from Cognizance.

For the nine-month period ended September 30, 2005, non-cash working capital decreased by approximately \$0.27 million relative to December 31, 2004. Accounts receivable was consistent for both periods at \$2.93 million reflecting a slightly better ratio of receivables to sales at the end of September. Inventory increased \$0.84 million to \$2.68 million since December 31, 2004, a level that is considered much too high by management, and is the focus of attention in the fourth quarter. The Company decided in January 2005 to terminate its relationship with its contract manufacturer in favour of manufacturing printed circuit board assemblies ("PCBAs") in Asia and performing final assembly in-house. Management anticipates that this change will generate substantial cost savings while at the same time providing more flexibility in its build schedule, as well as eventually reduce the carrying cost of inventory. The transition to this model necessitated the implementation of a new Material Requirements Planning (MRP) system and a transition period with our key suppliers. However, due to initial implementation challenges with the MRP system, inventory grew to a much higher level than expected. These challenges have been addressed, and management has put a plan in place to reduce the overall inventory level by approximately \$1.0 million by the end of this fiscal year. Prepaid expenses and deposits increased by \$0.06 million to \$0.33 million. The increase is largely attributable to additional deposits made to new component suppliers.

Accounts payable and accrued liabilities increased by \$1.14 million to \$2.50 million, and primarily relates to the increased inventory levels. Also contributing to the increase in accounts payable and accrued liabilities is a bonus accrual for employees of \$0.29 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 \$0.02 million.

For the nine-month period ended September 30, 2005 Bioscrypt invested approximately \$0.58 million in capital assets. These purchases primarily consist of leasehold improvements and furniture for the new office space in Markham, the acquisition of a new integrated accounting/manufacturing software package, and other computer hardware and software purchases. The office relocation accommodated the transition to in-house assembly while at the same time will provide savings of approximately \$0.10 million per year in premises expense.

There were minimal financing activities in the nine-month period ended September 30, 2005, and 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 added approximately \$1.37 million of additional lease commitments. Lease payments due during the remainder of fiscal 2005 are \$0.35 million. Lease payments due in fiscal years 2006 to 2008 are \$1.48 million. Lease payments due in fiscal years 2009 and 2010 are \$0.52 million.

As at September 30, 2005 the Company has commitments to purchase approximately \$0.80 million of inventory over the next three months.

RESULTS

Quarterly Financial Information

	Three months ended Sept 30,		Nine months ended Sept 30,	
	2005	2004	2005	2004
Revenue	\$ 4,133	\$ 3,304	\$ 11,148	\$ 8,505
Cost of Revenue	2,181	1,632	6,075	4,555
Gross Margin	1,952	1,672	5,073	3,950
Operating expenses	2,493	2,109	7,951	6,064
Loss from operations	(541)	(437)	(2,878)	(2,114)
Amortization	579	50	1,360	154
Loss before other	(1,120)	(487)	(4,238)	(2,268)
Other (1)	(144)	583	(24)	(32)
Net loss income	\$ (976)	\$ 96	\$ (4,214)	\$ (2,300)
(Loss) income per share – basic and diluted	\$ (0.02)	\$ 0.00	\$ (0.07)	\$ (0.04)
Basic and diluted weighted average number of shares outstanding at Sept. 30	58,921,782	53,779,869	58,170,697	51,785,411
Actual common shares outstanding at Sept. 30	58,921,782	54,157,438	58,921,782	54,157,438

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

For the three-month period ended September 30, 2005 revenues were \$4.13 million, an increase of \$0.83 million or 25% from the same period in the prior year. For the nine-month period ended September 30, 2005, revenues have increased \$2.64 million, or 31% from \$8.51 million for the same period in the prior year. This is in line with management's expectations of 25-35% growth for fiscal 2005 relative to the prior year.

Management continues to be encouraged by the increasing license revenue component attributable to the introduction of the VeriSoft product and from our OEM channel, notably through sales of a bundled solution included with Hewlett Packard's business laptops. License revenue of \$0.34 million in the quarter represents the highest quarterly license revenue in the Company's history, surpassing the previous year's amount of \$0.32 million which was attributable to the license agreement signed by Safflink for the Transportation Worker Identity Card (TWIC) pilot. Management continues to believe that license revenue will be the largest growth driver for the Company going forward.

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 nine month periods ended September 30, 2005. Revenue for the Veri-Series product line represented 50% and 54% of total product sales for the respective three and nine month periods ended September 30, 2005. This compares to 50% and 55% in the respective prior periods ending September 30, 2004. In the three month period ended September 30, 2005 the Company shipped 3,446 units of the Veri-Series product line. This represents a 44% increase over the same period in the prior year. For the nine month period ended September 30, 2005 the Company shipped 9,954 units of the Veri-Series product line. This represents a 32% 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 September 30, 2005 the Company shipped 8,763 units of the embedded solution, a 22% increase over the same period in the prior year. For the nine month period ended September 30, 2005 the Company shipped 22,543 units of the embedded solution, a 32% 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 launch a new product with a feature set to meet the new demands of the market early in the first quarter of fiscal 2006.

Revenues from sales outside of the Americas represented 31% and 23% respectively for the three months ended September 30, 2005 and 2004. For the nine months ended June 30, 2005 and 2004 sales to outside of the Americas represented 30% and 29% respectively. Revenues from sales outside of the Americas have increased by approximately \$0.06 million and \$0.34 million for the respective three and nine month periods ended September 30, 2005. Growing Bioscrypt's presence internationally remains a primary objective for the Company. We believe there will be greater contribution from international sales for the remainder of the year and beyond.

For the three month period ended September 30, 2005 one customer accounted for approximately 19% of the Company's total revenue while one customer accounted for 25% for the comparable period in the prior year. For the nine month period ended September 30, 2005 one customer accounted for approximately 19% of the Company's total revenue while one customer accounted for 20% in the comparable period in the prior year. For both of the nine month periods ended September 30, 2005 and 2004 Bioscrypt's five largest customers accounted for approximately 36% of the Company's total revenue.

Cost of Revenues and Gross Margin

Cost of revenue consists primarily of hardware manufacturing costs, related shipping charges and commissions. For the three-month period ended September 30, 2005 gross margin increased 17% or \$0.28 million relative to the comparable period in the prior year. This increase was primarily a result of the increase in product sales as licensing revenue was only slightly higher than the prior year. As a percentage, gross margin decreased to 47.2% of sales, down 3.4% from 50.6% for the comparable period in the prior year. This was primarily due to the higher proportion of license revenue to total sales in the prior year, and lower product margins moving from 45.3% in the three-month period ended September 30, 2004 to 42.5% in the three-month period ended September 30, 2005. Although management anticipated that product gross margin would start to increase in Q3 as a result of the cost-saving effects of the recent manufacturing changes, product assembled in-house primarily resided in inventory at the end of the quarter and will not impact product margins until the fourth quarter. It is expected that this impact should result in a small improvement in margins 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 \$0.80 million for the three-month period ended September 30, 2005 compared to approximately \$0.45 million for the comparable period in the prior year. This significant increase is primarily due to three factors: (i) an increase in specific research and development activities requiring both an increase in headcount as well as an increased level of engineering consulting; (ii) the acquisition of Cognizance which increased the size of our team of developers; and (iii) the relatively higher cost of resources due to the strength of the Canadian dollar versus the US dollar over the past year. Also of note, research and development expenses decreased 6.7% relative to the previous quarter, as management continues to exercise prudent expense control.

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 \$1.49 million for the three-months ended September 30, 2005 compared to approximately \$1.37 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 September 30, 2004, as well as the relatively higher cost of resources in Canada due to the strength of the Canadian dollar versus the US dollar over the past year. As a percentage of sales, selling, general and administration expenses decreased from 41.4% in the three-month period ended September 30, 2004 to 36.1% in the current year. Similar to management's focus on expense control for research and development expenses, selling, general and administration expenses have decreased 10.7% relative to the prior quarter.

Stock compensation for the three-month period ended September 30, 2005 was \$0.20 million, consistent with the \$0.19 million in the comparable period in the prior year.

Amortization for the period ended September 30, 2005 was \$0.58 million versus \$0.05 million in the comparable period in the prior year. This significant increase is due to the amortization of acquired intangible assets: all of the intangible assets 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 core technology purchased from Areté Associates in December 2004. Other acquired intangible assets are being amortized over ten years.

Other interest income was approximately \$0.06 million for the three-month period ended September 30, 2005. This is consistent with the \$0.06 million recorded for the same period in 2004. Interest expense was negligible. Finally, the Company incurred approximately \$0.09 million of foreign exchange gain for the current period versus a gain of \$0.53 million for the same period in the prior year.

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 Sept. 30,		Nine months ended Sept. 30,	
	2005	2004	2005	2004
Revenue				
Product sales	\$ 3,790,094	\$ 2,983,000	\$ 10,563,203	\$ 8,037,999
License, royalties and services	342,537	321,544	584,676	467,068
	4,132,631	3,304,544	11,147,879	8,505,067
Cost of Revenue				
Product sales	2,180,432	1,630,308	6,074,815	4,547,837
License, royalties and services	473	1,858	473	7,662
	2,180,905	1,632,166	6,075,288	4,555,499
Gross Margin	1,951,726	1,672,378	5,072,591	3,949,568
Expenses				
Research and development	803,083	450,978	2,463,417	1,307,674
Selling, general and administration	1,492,305	1,366,680	4,874,651	4,113,208
Stock compensation	197,277	189,804	613,056	541,480
Restructuring	-	101,548	-	101,548
	2,492,665	2,109,010	7,951,124	6,063,910
Loss Before Amortization and Other	(540,939)	(436,632)	(2,878,533)	(2,114,342)
Amortization				
Fixed assets	89,232	50,274	207,140	154,194
Intangible assets	489,373	-	1,152,411	-
	578,605	50,274	1,359,551	154,194
Loss Before Other	(1,119,544)	(486,906)	(4,238,084)	(2,268,536)
Other				
Interest income	57,562	55,752	177,260	143,241
Interest expense	(2,954)	(1,051)	(3,333)	(707,187)
Foreign exchange (loss) gain	89,197	528,256	(149,616)	531,939
	143,805	582,957	24,311	(32,007)
Net (Loss) Income	(975,739)	96,051	(4,213,773)	(2,300,543)
Deficit Beginning of Period	(40,387,768)	(37,178,951)	(37,149,734)	(34,103,954)
Change in accounting policy	-	-	-	(678,403)
Deficit End of Period	\$(41,363,507)	\$(37,082,900)	\$(41,363,507)	\$(37,082,900)
(Loss) Income Per Share				
Basic and Diluted	\$ (0.02)	\$ 0.00	\$ (0.07)	\$ (0.04)
Basic and diluted weighted average number of shares	58,921,782	53,779,869	58,170,697	51,875,411

Consolidated BALANCE SHEETS

<i>(Unaudited)</i> <i>(in U.S. dollars)</i>	Sept. 30, 2005	Dec. 31, 2004
Assets		
Current		
Cash	\$ 8,092,155	\$12,056,981
Accounts receivable	2,927,587	2,937,402
Inventory	2,682,067	1,843,635
Prepaid expenses and deposits	330,296	270,529
	14,032,105	17,108,547
Fixed Assets	1,142,446	577,285
Intangible Assets (Note 3)	14,323,181	7,970,409
	\$29,497,732	\$25,656,241
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 2,496,509	\$ 1,357,271
Deferred revenue	46,197	28,480
Current portion of deferred tenant inducement	58,009	32,532
	2,600,715	1,418,283
Deferred Tenant Inducement	197,413	-
	2,798,128	1,418,283
Shareholders' Equity		
Share capital (Note 4)	65,798,628	59,736,265
Warrants	59,420	59,420
Contributed surplus	2,205,063	1,592,007
Deficit	(41,636,507)	(37,149,734)
	26,699,604	24,237,958
	\$29,497,732	\$25,656,241

Consolidated Statements of CASH FLOWS

<i>(Unaudited)</i> <i>(in U.S. dollars)</i>	Three months ended Sept. 30,		Nine months ended Sept. 30,	
	2005	2004	2005	2004
Net Inflow (Outflow) of Cash				
Related to the Following Activities:				
Operating				
Net (loss) income	\$ (975,739)	\$ 96,051	\$ (4,213,773)	\$ (2,300,543)
Items not affecting cash:				
Amortization:				
Fixed assets	89,232	50,274	207,140	154,194
Deferred financing costs	-	-	-	4,136
Intangible assets	489,373	-	1,152,411	-
Deferred tenant inducement	57,674	(8,132)	20,808	(24,395)
Secured debentures discount	-	-	-	24,552
Write off of previous leasehold improvements	-	-	37,634	-
Write off of previous deferred tenant inducement	-	-	(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	197,277	189,804	613,056	541,480
Loss on disposal of fixed assets	-	401	105	2,798
	(142,183)	328,398	(2,209,730)	(1,103,162)
Changes in non-cash operating working capital items:				
Accounts receivable	(341,124)	(605,704)	219,627	(136,315)
Inventory	(216,936)	(441,994)	(838,432)	(453,337)
Prepaid expenses and deposits	(24,340)	8,571	(59,767)	(163,848)
Accounts payable and accrued liabilities	(131,762)	139,007	592,854	(79,804)
Deferred revenue	(101,147)	43,324	(179,622)	43,324
	(957,492)	(528,398)	(2,475,070)	(1,893,142)
Investing				
Purchase of fixed assets	(285,957)	(79,511)	(582,446)	(125,006)
Purchase of intangible assets	(40,654)	-	(203,148)	-
Acquisition net of cash acquired	(252,849)	-	(718,705)	-
	(579,460)	(79,511)	(1,504,299)	(125,006)
Financing				
Issuance of common shares	-	12,933	14,543	14,084,147
Issuance cost of common shares	-	-	-	(1,047,841)
Repayment of secured debentures	-	-	-	(3,733,500)
	-	12,933	14,543	9,302,806
Net (decrease) increase in cash	(1,536,952)	(594,976)	(3,964,826)	7,284,658
Cash Beginning of Period	9,629,107	13,560,379	12,056,981	5,680,745
Cash End of Period	\$ 8,092,155	\$ 12,965,403	\$ 8,092,155	\$ 12,965,403
Supplementary Information				
Interest paid during the period	\$ 2,954	\$ 1,401	\$ 3,333	\$ 107,353
Interest received				
during the period	\$ 57,562	\$ 55,752	\$ 177,260	\$ 143,241
Fixed assets acquired through tenant inducement	\$ -	\$ -	\$ 229,193	\$ -

Notes to the Interim CONSOLIDATED FINANCIAL STATEMENTS

September 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 Corporation 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 potential for 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. INTANGIBLE ASSETS

	Core		Total
	Goodwill	Technology	
Net book value, December 31, 2004	\$ 6,978,742	\$ 991,667	\$ 7,970,409
Additions	-	7,505,183	7,505,183
Amortization	-	(1,152,411)	(1,152,411)
Net book value, September 30, 2005	\$ 6,978,742	\$ 7,344,439	\$ 14,323,181

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 intangible assets which are related to the Cognizance acquisition to be four years, and the useful life of the other acquired intangible assets 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 and September 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	3.35 - 3.47%
Volatility factor of the future expected market price	71 - 75%
Dividend yield	0%
Weighted average expected life of the options	4 years

A summary of the changes during the nine month period ended September 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:

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
Primary Stock Option Plan		
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
Granted	146,875	\$ 1.34
Exercised	-	\$ -
Cancelled/Expired	(65,875)	\$ 2.14
Outstanding at September 30, 2005	4,096,196	\$ 1.71
Options exercisable at September 30, 2005	2,575,959	\$ 1.61
Options available for issuance at Sept. 30, 2005	740,430	

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
Second Stock Option Plan		
Outstanding and exercisable at December 31, 2004	450,000	\$ 5.25
Cancelled/Expired	(450,000)	\$ 5.25
Outstanding at March 31, June 30, and September 30, 2005	-	

	Number of Options	Canadian dollars Weighted Avg. Exercise Price
Third Stock Option Plan		
Outstanding and exercisable at December 31, 2004, March 31, June 30, and September 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 Sept. 30, 2005		Nine months ended Sept. 30, 2004	
Net revenue:				
Americas	\$ 2,848,215	\$ 2,554,162	\$ 7,789,926	\$ 6,019,611
Asia	526,980	140,194	1,174,008	643,830
Europe	390,122	294,573	1,109,367	989,097
Middle East	268,151	196,744	777,085	560,977
Other	98,163	118,871	297,493	291,552
Total revenue	\$ 4,132,631	\$ 3,304,544	\$ 11,147,879	\$ 8,505,067

6. COMMITMENTS

As at September 30, 2005 the Company has commitments to purchase approximately \$796,000 of inventory over the next three 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
Thereafter	248,500
	\$ 2,349,020