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*No securities regulatory authority has expressed an opinion about these securities and it is an offence to claim otherwise.*

These securities have not been and will not be registered under the *United States Securities Act of 1933*, as amended, and, except in limited circumstances, may not be offered or sold directly or indirectly in the United States.

## PRELIMINARY PROSPECTUS

New Issue

December 1, 2003



### SAMSys TECHNOLOGIES INC.

12,000,000 Common Shares  
and 6,000,000 Common Share Purchase Warrants  
to be issued upon the exercise of 12,000,000 previously issued Special Warrants

This prospectus qualifies the distribution of 12,000,000 common shares ("Common Shares") and 6,000,000 common share purchase warrants ("Warrants") of SAMSys Technologies Inc. ("SAMSys") which are issuable upon the exercise or deemed exercise of 12,000,000 special warrants ("Special Warrants") issued by SAMSys on October 15, 2003. The Special Warrants were issued and sold on a private placement basis pursuant to an agency agreement (the "Agency Agreement") dated October 15, 2003 between First Associates Investments Inc., Clarus Securities Inc. (collectively, the "Agents") and SAMSys at a price of \$1.10 per Special Warrant. The Special Warrants were created and issued under a special warrant indenture (the "Special Warrant Indenture") dated October 15, 2003 between Computershare Trust Company of Canada, as trustee, and SAMSys. Each Special Warrant is exercisable for one Common Share and 0.5 of a Warrant without payment of additional consideration. See "Private Placement and Plan of Distribution".

The Special Warrants were previously distributed pursuant to prospectus exemptions available under the applicable securities legislation of Ontario, British Columbia, Alberta and Quebec (the "Qualifying Jurisdictions"). Special Warrants were also distributed to residents of the United States pursuant to exemptions from the registration requirements of the *United States Securities Act of 1933*, as amended, and to residents of other foreign jurisdictions pursuant to exemptions from the prospectus requirements in such foreign jurisdictions.

The Special Warrants are exercisable at any time before 5:00 p.m. (Toronto time) (the "Expiry Time") on the earlier of: (1) the fifth business day after the date on which each of the securities regulators in the Qualifying Jurisdictions has issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants; and (2) October 15, 2004. Any Special Warrants not exercised before the Expiry Time will be deemed to be exercised immediately prior to the Expiry Time without any further action by the holder. The Special Warrant Indenture provides that if a receipt for the (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable on the exercise or deemed exercise of the Special Warrants has not been issued by each of the securities regulators in the Qualifying Jurisdictions on or prior to January 13, 2004 a holder of Special Warrants shall be entitled to acquire, upon exercise or deemed exercise of each Special Warrant, 1.08 Common Shares in lieu of one Common Share and 0.54 of a Warrant in lieu of 0.5 of a Warrant, without payment of additional consideration. This prospectus will also qualify the distribution of the additional Common Shares and Warrants issuable if such penalty (the "Late Filing Penalty") is incurred. If a receipt for the (final) prospectus has not been issued by each of the securities regulators in the Qualifying Jurisdictions on or

prior to January 13, 2004 SAMSys will nevertheless continue to be obligated to use its commercially reasonable efforts to obtain receipts for the (final) prospectus until the Expiry Time. See “Private Placement and Plan of Distribution”.

The gross proceeds from the issue and sale of the Special Warrants were as follows:

	<u>Price to Public</u> <sup>(1)</sup>	<u>Agents’ Commissions</u> <sup>(2)</sup>	<u>Proceeds to SAMSys</u> <sup>(3)</sup>
Per Special Warrant.....	\$1.10	\$0.077	\$1.023
Total.....	\$13,200,000.00	\$862,400.00 <sup>(4)</sup>	\$12,337,600.00

Notes:

- (1) The price of the Special Warrants was determined by negotiation between SAMSys and the Agents and in accordance with the policies of the TSX Venture Exchange.
- (2) No additional fee will be payable to the Agents in connection with the issuance of Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants. In addition to the cash compensation noted above, SAMSys issued to the Agents 1,080,000 agents’ special warrants which entitle the Agents to acquire the same number of non-assignable compensation options (“Compensation Options”). Each Compensation Option entitles the holder to purchase one Common Share at a price of \$1.10 at any time prior to 5:00 p.m. (Toronto time) on October 14, 2005. This prospectus also qualifies for distribution 600,000 Compensation Options issuable to the Agents, together with the Common Shares issuable upon their exercise. See “Private Placement and Plan of Distribution”.
- (3) Before deducting expenses of the offering estimated to be \$365,000 (excluding the Agents’ fees) which are to be paid from the proceeds of the offering, SAMSys will not receive any proceeds from the issuance of Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants.
- (4) No commission was paid to the Agents in respect of 800,000 Special Warrants purchased by BTG International Limited, a principal shareholder of SAMSys.

SAMSys’ currently outstanding Common Shares are listed and posted for trading on the TSX Venture Exchange (the “Venture Exchange”) under the symbol “SMY”. On August 29, 2003, the last trading day prior to the date on which the price of the Special Warrants was determined, the closing price of the Common Shares on the Venture Exchange was \$1.25 per share. On November 28, 2003 the closing price of the Common Shares on the Venture Exchange was \$2.63 per share. See “Price Range and Trading Volume of Common Shares”.

**There is currently no market through which the Special Warrants or the Warrants may be sold and purchasers may not be able to resell the Special Warrants or the Warrants.** The Venture Exchange has approved the listing of the Common Shares issuable upon the exercise or deemed exercise of Special Warrants, the Common Shares issuable upon the exercise of Warrants, and the Common Shares issuable upon the exercise of Compensation Options (including, in each case, those issuable if the Late Filing Penalty is incurred). SAMSys has applied to list the Warrants on the Venture Exchange. Listing on the Venture Exchange will be subject to SAMSys fulfilling all of the Venture Exchange’s listing requirements.

Definitive certificates evidencing the Common Shares and Warrants issuable upon the exercise or deemed exercise of Special Warrants will be available for delivery upon such exercise or deemed exercise.

**An investment in the Common Shares and Warrants involves certain risks and should be considered speculative. See “Risk Factors”.**

Certain legal matters relating to the offering have been and will be passed upon by Osler, Hoskin & Harcourt LLP on behalf of SAMSys, and by Baker & McKenzie on behalf of the Agents.

Unless otherwise stated, all dollar amounts referred to in this prospectus are in Canadian dollars.

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## PROSPECTUS SUMMARY

*The following is a summary of the principal features of this distribution and should be read together with the more detailed information and financial data and statements contained elsewhere in this prospectus.*

### The Company

SAMSys Technologies Inc. (“SAMSys”) provides radio frequency identification (“RFID”) reader hardware solutions and RFID consulting services to customers in the automatic identification and data capture industry. SAMSys’ RFID readers and their associated systems offer end-users enhanced flexibility by supporting a variety of different frequencies and protocols. This technology enables a wide variety of RFID tags to be read by the same reader network, regardless of the tag’s manufacturer or the frequency at which it operates. See “The Company” and “Business”.

Unless the context otherwise requires, references in this prospectus to “SAMSys” include SAMSys and its subsidiaries.

### The Offering

**Issue:** 12,000,000 common shares (“Common Shares”) and 6,000,000 common share purchase warrants (“Warrants”) to be issued by SAMSys upon the exercise or deemed exercise of 12,000,000 previously issued special warrants (“Special Warrants”). No additional cash proceeds will be received by SAMSys from the issuance of Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants. See “Private Placement and Plan of Distribution”.

**Special Warrants:** The Special Warrants were created and issued under a special warrant indenture (the “Special Warrant Indenture”) dated October 15, 2003 between Computershare Trust Company of Canada, as trustee, and SAMSys. Each Special Warrant is exercisable for one Common Share and 0.5 of a Warrant without payment of additional consideration. The Special Warrants are exercisable at any time before 5:00 p.m. (Toronto time) (the “Expiry Time”) on the earlier of: (1) the fifth business day after the date on which each of the securities regulators in Ontario, British Columbia, Alberta and Quebec (the “Qualifying Jurisdictions”) has issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable on the exercise or deemed exercise of the Special Warrants; and (2) October 15, 2004. Any Special Warrants not exercised before the Expiry Time will be deemed to be exercised immediately prior to the Expiry Time without any further action by the holder. The Special Warrant Indenture provides that if a receipt for the (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable on the exercise or deemed exercise of the Special Warrants has not been issued by each of the securities regulators in the Qualifying Jurisdictions on or prior to January 13, 2004 a holder of Special Warrants shall be entitled to acquire, upon exercise or deemed exercise of each Special Warrant, 1.08 Common Shares in lieu of one Common Share and 0.54 of a Warrant in lieu of 0.5 of a Warrant, without payment of additional consideration.

**Warrants:** Pursuant to the terms of a warrant indenture (“the Warrant Indenture”) dated October 15, 2003 between Computershare Trust Company of Canada, as trustee, and SAMSys, each whole Warrant will entitle the holder thereof to purchase one Common share at a price of \$1.50 per share at any time prior to 5:00 p.m. (Toronto time) on October 13, 2006.

**Use of Proceeds:** The net proceeds to SAMSys from the sale of Special Warrants, after deducting the fees payable to the Agents and the estimated expenses of the offering, are estimated to be \$11,972,600. SAMSys has used and intends to use the net proceeds to expand its sales and marketing activities, to continue funding its research and development

program, to fund growth of its RFID integration consulting services, and for general working capital purposes.

Risk Factors:

An investment in securities of SAMSys involves certain risks which should be carefully considered by investors, and any investment should be considered highly speculative. SAMSys' targeted end-users will be required to make significant investments in their business processes and systems in order to achieve the intended benefits associated with RFID technology. There is no assurance that targeted end-users will be willing to make these investments and adopt RFID technology or, if they are, that they will choose SAMSys' RFID products and services. Although development of SAMSys' products described in this prospectus has been largely completed, sales of SAMSys' current products to date have been primarily for evaluation and pilot testing purposes, have yielded inconsistent revenues and there is no assurance that SAMSys' products will achieve commercial acceptance. SAMSys' consulting service was only recently launched, is in the early stage of development, and faces competition from a number of large, well established competitors. SAMSys is dependent on growth in the market for RFID products which faces certain challenges. There can be no assurance that SAMSys' technology and products based on such technology will achieve commercial acceptance on a timely basis or that, if market acceptance is achieved, SAMSys will be able to maintain such acceptance for a significant period of time. SAMSys has incurred net losses in each year since it entered the RFID market. If SAMSys achieves significant commercial sales of its products, it will be required to expand its operations rapidly which will place significant demands on SAMSys' managerial, operational and financial personnel and systems. The use of SAMSys' products could result in product liability and other claims against SAMSys by such users. SAMSys' research and development efforts may not lead to the successful introduction of new or improved products. SAMSys is subject to risks associated with government regulation in Canada and foreign countries. SAMSys' products may become the subject of safety concerns in the future. There can be no assurance that additional financing, if necessary, will be available on terms favorable to SAMSys, if at all. There is no assurance that SAMSys' competitors will not develop products comparable or superior in terms of price and performance features to those developed by SAMSys. SAMSys is dependent on third-party manufacturers and on third-party resellers and distributors. SAMSys products may contain defects or errors that are only discovered after installation. SAMSys' success and competitiveness depend on licensed and internally-developed proprietary technologies which may be challenged by third parties and which may not provide a competitive advantage. SAMSys has recently received notice from a third-party indicating its ownership of patents relating to multi-protocol RFID systems and stating that it is examining whether SAMSys' multi-protocol product infringes upon one or more of such patents. A significant portion of SAMSys' management team has been in place for only a short period of time, and SAMSys' success will depend upon the continued service of certain members of senior management and on its ability to attract and retain key personnel. SAMSys' success will depend upon market acceptance of its products and its ability to enhance its products and to introduce new products and features to meet changing customer requirements. Fluctuations in the exchange rate between the United States dollar, other currencies and the Canadian dollar may have a material adverse effect on SAMSys' results of operations and financial condition. There is currently no public market for the Warrants and the price and trading volume of the Common Shares and Warrants may be volatile. See "Risk Factors".

Selected Financial Information:

The following selected financial information is derived from, should be read in conjunction with, and is qualified in its entirety by reference to SAMSys' consolidated financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. See "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	<b>Nine Months Ended June 30 (unaudited)</b>		<b>Fiscal Years Ended September 30</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Revenue	\$ 188,678	\$ 1,337,456	\$ 1,378,493	\$ 3,089,861	\$ -
Cost of Sales	90,183	871,906	906,000	2,040,396	-
Gross profit	98,495	465,550	472,493	1,049,465	-
Interest Income	80,951	34,963	84,863	47,869	47,693
Expenses	6,328,481	4,600,511	6,429,318	3,908,499	695,071
Loss before income tax	(6,149,035)	(4,099,998)	(5,871,962)	(2,811,165)	(647,378)
Income taxes	-	-	33,104	6,433	-
Loss for the period	(6,149,035)	(4,099,998)	(5,905,066)	(2,817,598)	(647,378)
Basic and diluted loss per share	\$ (0.21)	\$ (0.18)	\$ (0.25)	\$ (0.15)	\$ (0.04)
Weighted number of shares outstanding	28,725,898	22,428,713	24,012,694	18,600,471	17,204,204
	<b>As at June 30 (unaudited)</b>		<b>As at September 30</b>		
	<b>2003</b>		<b>2002</b>	<b>2001</b>	
Total assets	\$ 4,493,326		\$ 10,283,759	\$ 6,343,710	
Total liabilities	460,021		326,419	291,626	
Shareholders equity	\$ 4,033,305		\$ 9,957,340	\$ 6,052,084	

## **FORWARD LOOKING STATEMENTS**

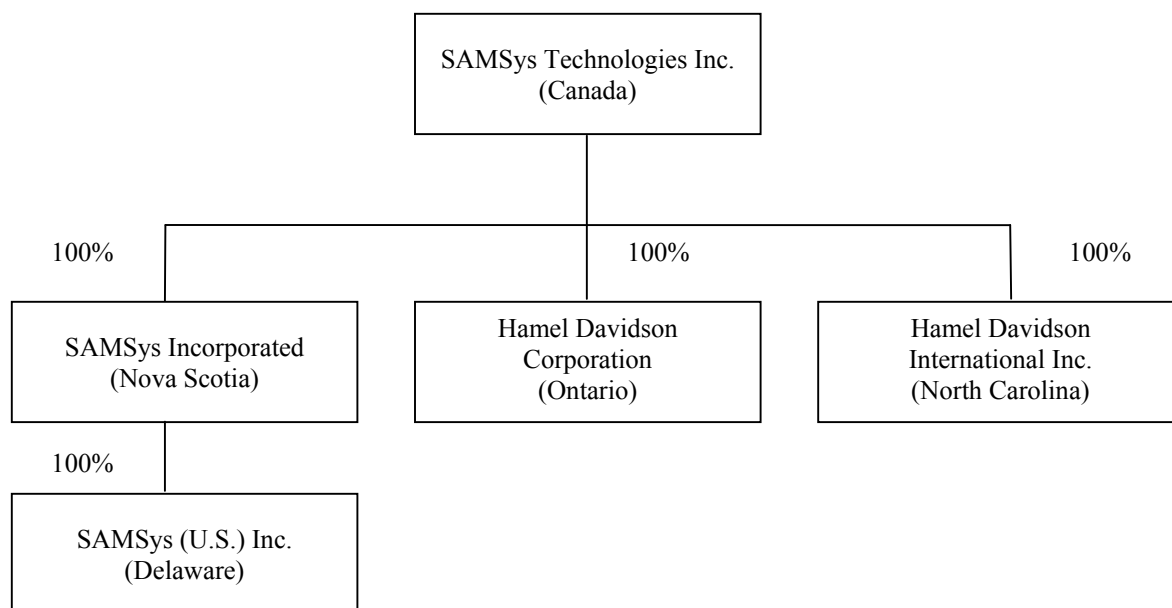
Certain statements contained in this prospectus constitute “forward-looking statements”. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in the forward-looking statements. These factors include, among other things, those listed under “Risk Factors” or described elsewhere in this prospectus. In some cases, forward-looking statements can be identified by use of words such as “may”, “will”, “should”, “could”, “expects”, “plans”, “intends”, “anticipates”, “believes”, “estimates”, “seeks”, “strategy”, “continue” or the negative or other variations of those words, or other comparable words or phrases. Management of SAMSys believes that the expectations reflected in the forward-looking statements are reasonable, but cannot guarantee future results, levels of activity, performance, achievements, or other events. SAMSys is under no duty to update any forward-looking statements after the date of this prospectus, and undue reliance should not be placed on such statements.

## THE COMPANY

SAMSys Technologies Inc. (“SAMSys”) was incorporated under the laws of Ontario on September 24, 1973. Operating under the names Adanac Gas & Oil Incorporated and, subsequent to August 2, 1974, Spanex Resources Limited, SAMSys was initially engaged in oil and gas exploration and development activities. SAMSys was dissolved on May 20, 1985 and revived by articles of revival dated August 26, 1986. SAMSys reorganized its capital and changed its name to Spanex Capital Inc. on March 3, 1988 and on April 3, 1989 again reorganized its capital. On September 30, 1992 SAMSys amalgamated with its two wholly-owned subsidiaries, 995686 Ontario Incorporated and 973952 Ontario Incorporated. On April 25, 1996 SAMSys acquired a controlling interest in Semaphore Asset Management Systems Incorporated (“Semaphore”) and acquired all of the remaining shares of Semaphore in June and July of 1996. On April 24, 1997 SAMSys changed its name to SAMSys Technologies Inc. and reorganized its capital. On May 6, 2002 SAMSys amended its articles to create a class of 2,500,000 convertible special shares (“Convertible Special Shares”) which are convertible into Common Shares on a one-for-one basis in certain circumstances. See “Description of Share Capital”. On May 13, 2002 SAMSys was continued under the *Canada Business Corporations Act* through articles of continuance.

SAMSys (U.S.) Inc. (formerly SAMSys Inc.) is a Delaware corporation which is wholly-owned by SAMSys Incorporated (formerly Semaphore) and which carries on sales and marketing activities. SAMSys Incorporated, a Nova Scotia corporation wholly-owned by SAMSys, is the Canadian operating company and also carries on certain administrative activities. On November 13, 2000 SAMSys acquired all of the issued and outstanding shares of Hamel Davidson Corporation (“HDC”), an Ontario corporation, and Hamel Davidson International Inc. (“HDII”), a North Carolina corporation. Both HDC and HDII principally conduct research and development and production activities at SAMSys’ facilities in Richmond Hill, Ontario and Durham, North Carolina.

The following diagram shows the intercorporate relationships between SAMSys and its subsidiaries as of the date of this prospectus.



SAMSys also owns 50% of the outstanding shares of RFIP Solutions Limited (“RFIP Solutions”) (formerly D2ID Limited), a company based in the United Kingdom. RFIP Solutions is a joint venture between SAMSys and BTG International Limited (“BTG”) that conducts research and development activities. See “Narrative Description of the Business – Research and Development”.

The registered and head office of SAMSys is located at 44 East Beaver Creek Road, Unit 11, Richmond Hill, Ontario, L4B 1G8.

## BUSINESS

### Overview of the Business

SAMSys is involved in the design and deployment of passive radio frequency identification (“RFID”) reader technology. SAMSys designs and manufactures more than 10 different RFID readers supporting a broad array of tag protocols and frequencies. SAMSys also offers RFID consulting services for those companies contemplating the introduction of RFID into their operations but who are uncertain as to the best RFID solution to employ. SAMSys is dedicated to the proposition that each RFID application requires a careful matching of RFID tag, reader and host interface components to deliver the optimal performance promise of RFID technology.

In 1994, SAMSys began operations as a provider of business solutions for tracking and controlling the movement of property and personnel through the use of portable wireless devices, with a particular emphasis on RFID technology. To that end, in March 1995 SAMSys acquired a non-exclusive, royalty-based licence from British Technology Group for the use of the Supertag Radio Frequency Identification Protocol (“Supertag”) technology. The advantages of the Supertag technology were that it provided greater read range than other passive RFID technologies and the ability to process large batches of tags simultaneously.

Building off of the Supertag technology, SAMSys developed its own proprietary RFID reader technology which was branded the SAMSys Fastrak System. An objective assessment of the generic strengths of RFID technology, combined with an assessment of market needs, further focussed SAMSys’ efforts on RFID hardware solutions for high volume pallet and reusable container tracking applications.

At the time, SAMSys and its competitors pursued an approach of marketing both tags and readers based on the premise that whoever supplied the tags would also supply the readers. Consumer resistance was encountered due in part to the fact that in any large-scale environment it was virtually impossible to ensure that only one type of tag would be used on all objects passing through a reader’s field. One solution to this problem would have been to install a series of readers at each interrogation location so as to cater to all of the different types of tags that could be present on a variety of objects.

In 1999, these factors, combined with an objective and critical appraisal of the market, led SAMSys to incorporate an innovative approach to its product development, namely the first passive RFID reader capable of reading a variety of tag types at different frequencies. The concept of “multi-protocol/multi-frequency” readers was a significant breakthrough in the move towards bringing RFID technology to the mainstream market, and SAMSys’ management believes that it remains the most practical solution to satisfy the needs and realities of supply chain management applications.

During fiscal 2001 SAMSys announced that it had been selected by International Paper Co. as its primary reader supplier to design, develop and manufacture a variety of reader solutions on behalf of International Paper’s customers for various pilot projects on a “time and materials” basis. The resulting billings were recorded as revenues by SAMSys and signified the commencement of commercial operations. As a result of this two year relationship with International Paper and SAMSys’ arrangements and agreements with the majority of the major producers and suppliers of tag products, SAMSys was able to design and build its comprehensive library of reader technologies that supported both single and multi-protocol implementations.

On April 4, 2002 SAMSys completed an \$8,800,000 private placement to BTG pursuant to which BTG received 8,000,000 Common Shares at a price of \$1.10 per share representing 27.9% of the then outstanding Common Shares. Also on April 4, 2002 SAMSys announced the finalization of a joint venture with BTG which resulted in the creation of RFIP Solutions, a company based in the United Kingdom. Each of SAMSys and BTG committed to an investment of \$800,000 in the joint venture and contributed intellectual property and know-how. SAMSys and BTG agreed that the benefits of the joint venture program would be subject to revenue sharing arrangements, however if the program achieved specified technical milestones, at BTG’s option in lieu of revenue sharing it could grant SAMSys a worldwide fully-paid licence to the Supertag technology. In consideration of the joint venture and other intellectual property rights, SAMSys issued to BTG 2,500,000 Convertible Special Shares which are convertible on a one-for-one basis into Common Shares only if the joint venture’s technical milestones are achieved and BTG elects to grant SAMSys the worldwide fully-paid licence. The Convertible Special Shares are otherwise

redeemable for nominal consideration. See “Description of Share Capital – Convertible Special Shares”. As of the date of this prospectus, the Convertible Special Shares are not eligible for conversion and management of SAMSys does not foresee at this time that the required conditions for the conversion of the Convertible Special Shares will likely be met, although there can be no assurance in this regard.

Also in 2002, SAMSys established its value added resellers (“VAR”) program. This proactive program was established in response to the need to provide greater structure to the delivery mechanism for SAMSys’ expanding product lines to end-users. To date, SAMSys has entered into approximately 20 VAR agreements with experienced and well established resellers in North America and Europe which effectively multiplies SAMSys’ sales force and dramatically increases distribution channels without adding significantly to overhead. The majority of SAMSys’ product sales to date have originated through the VAR program.

In June 2003, SAMSys established an RFID consulting service for VARs and end-users.

Also in 2003, SAMSys progressed towards commercialization of its expanding library of proprietary products and technologies and received regulatory certification in Canada, the United States and Europe for the use of radio frequencies on many of the readers in its portfolio. In addition, SAMSys was granted patent number U.S. 6,617,962 titled “A System for Multi-Standard RFID Tags”. This patent was filed in 2000 as one in a series of patent applications, all of which relate to SAMSys’ RFID innovations. The patent outlines a system designed to interrogate a disparate population of RFID tags, regardless of frequency or protocol, through an innovative reader architecture.

SAMSys’ goal is to become the industry leader in passive RFID reader technology and the first choice for customers seeking RFID solutions to business issues.

## **Industry Overview**

Radio frequency identification is a wireless electronic labelling and data collection technology in the Automatic Identification and Data Capture (“AIDC”) industry. “Automatic Identification and Data Capture” is the industry term describing the identification and/or direct collection of data into a microprocessor controlled device such as a computer system or a programmable logic controller without the use of a keyboard. Alternatives to RFID in the AIDC industry include bar codes, magnetic stripe cards, smart cards, electronic article surveillance (“EAS”), optical character recognition, contact memory, and real-time locating systems (“RTLS”).

### *Alternative Technologies*

**Bar Codes:** The bar code remains the predominant AIDC technology today, with a wide range of applications. Bar codes are used anywhere that data related to an item or items needs to be collected and used. The bar code is an identification tool that provides accurate and timely support for the data requirements of sophisticated management systems. Bar codes use a pattern of bars and spaces of varying widths representing digits, letters or punctuation symbols to identify an item or regulate its movement. The manner in which these bars and spaces are arranged is referred to as a symbology. The symbology is illuminated by an infrared or visible light source; dark bars absorb the light, and spaces reflect it back to the scanner. The resulting light fluctuations are transformed into electrical impulses which in turn are decoded into computer-usable binary code. Scanners can be stationary or hand-held. Some bar codes require contact, while others can read tags from several feet. Implementing bar code technology is relatively easy and inexpensive, making it easy for users to adapt. In addition Universal Product Code bar codes are seen to be an industry standard for consumer products. Bar code technology is limited, however, by the laws of optics which make the technology unsuitable for certain applications.

**Magnetic Stripe Cards:** Magnetic stripe card technology uses the magnetic field of an encoding head to record data in the form of magnetic flux reversals. This information is placed onto a layer of magnetic material similar to that on an audio or video tape, which is attached to the front or back of a paper or plastic card. A decoder reads the flux reversals and translates them into letters and numbers for computer processing. There are two versions of magnetic stripe cards: (1) the credit card type; and (2) a high coercivity version that decreases the chances of data being erased or damaged accidentally. Magnetic stripe card technology is standard in the financial and retail industries for use in automatic teller machines and point-of-sale terminals. Other applications include access control, time and attendance systems, transit fare collections and similar “stored value” applications. The amount of data that can be stored on a

card is large, and is capable of being updated. Magnetic stripe card technology requires physical contact with the reader, however, and as a result is not passive in its use and can deal with only one card at a time. Read time associated with magnetic stripe cards is also slow compared to other AIDC technologies.

**Smart Cards:** Smart cards have been in widespread use in Europe for many years, but have been relatively slow to gain acceptance in North America. The smart card is similar in form to the magnetic stripe card, except that data is stored in embedded chips, rather than on a layer of magnetic material. There is typically a programmable integrated circuit board employed in the smart card, making the card capable of a greater number of applications than magnetic stripe cards and particularly suited to access control applications. Smart cards have generally been designed to communicate through surface contacts, but RFID communication is possible. Non-contact smart cards communicate at low frequencies and at short ranges, and communication is relatively slow compared to other AIDC technology. Furthermore, batch reading is not possible with smart cards.

**Electronic Article Surveillance:** EAS is a system that protects merchandise from theft. An EAS system has three components: (1) labels and hard tags – electronic sensors that are attached to merchandise; (2) deactivators and detachers – used at the point of sale to electronically deactivate labels and detach reusable hard tags as items are purchased; and (3) detectors that create a surveillance zone at exits or checkout aisles. The EAS process begins by attaching labels or hard tags to merchandise. When an item is purchased, the label is deactivated or the hard tag is removed. However, if merchandise with an active label or hard tag is carried past the detector, an alarm sounds. More than 800,000 EAS systems are installed worldwide, primarily in the retail market (including apparel, drug, discount, home centre, hypermarket, food, entertainment and specialty stores).

**Contact Memory:** In contact memory technology, a semiconductor memory chip is encased in a housing which resembles a watch battery and is attached to a read/write device. The major limitation of this technology is that it is dependent upon making physical contact, so the advantages of range and non-operator intervention are lost. In addition, battery power is mandatory. Examples of current applications include systems designed to ensure that security guards have passed all required way stations on their route, and the tracking of mail collection from mail boxes.

**Optical Character Recognition:** In optical character recognition systems, characters are scanned with a light source, providing an image that is interpreted by recognition software. The software analyzes the characters through either template matching (where the character is matched to a database of possibilities) or feature extraction (where the structural elements of the character are analyzed). While optical character recognition technology is slow and cumbersome, the data is readable by humans as well as by machines which is an advantage in certain applications such as courier delivery.

**Real-Time Locating Systems:** RTLS are fully automated systems that continually monitor the locations of assets and personnel. An RTLS solution typically utilizes battery-operated radio tags and a cellular locating system to detect the presence and location of the tags. The locating system is usually deployed as a matrix of locating devices that are installed at a spacing of anywhere from 50 to 1,000 feet. These locating devices determine the locations of the radio tags. The systems continually update the database with current tag locations as frequently as every several seconds or as infrequently as every few hours for items that seldom move. The frequency of tag location updates may have implications for the number of tags that can be deployed and the battery life of the tag. In typical applications, RTLS can track thousands of tags simultaneously and the average tag battery life can be five or more years. The key difference between RTLS systems and RFID systems is that RTLS systems are used to determine the location of a tag, whereas RFID systems also collect data from a tag and can write data to a tag.

### *Radio Frequency Identification Technology*

RFID is a technology used to track objects that need to be identified or accounted for in a wide variety of environments. A simple RFID system includes three elements: (1) a transponder (also known as a “tag”); (2) an interrogator (also known as a “reader”); and (3) an antenna or coil. RFID systems operate when tags programmed with unique information are attached to objects, and these tags communicate with readers when they enter the reader’s field or range. The reader transmits the data programmed on the tag to the RFID system software, which associates the unique information stored on the particular tag with information about the object to which the tag is attached.

There are three types of RFID tags in use today.

- **Active tags** rely on battery power to transmit their signal to a reader. They are generally used for high-value goods that need to be tracked over long ranges (100 feet or more), and are generally priced higher than other RFID tags.
- **Passive tags** draw power from electromagnetic waves given off by a reader. The read range for passive tags is usually under three meters, and these tags can be priced significantly lower than active tags.
- **Semi-passive tags** rely on battery power to run the tag's microchip's circuitry, but not to power communications with the reader. These tags are generally used for tracking high-value goods with longer read ranges and are typically priced between active and passive tags.

The object-specific information that is programmed onto a tag is held by one of two kinds of microchips.

- **Read-only chips** store information that can never be changed unless the chip is reprogrammed electronically.
- **Read-write chips** allow a user to add new information to a chip or write over existing information on a chip when it is within range of a reader. These chips are generally more expensive than read-only chips and are typically used to track high-priced, valuable items.

RFID tags have been developed that operate at low frequency, high frequency, ultra-high frequency, or microwave levels. Each frequency has advantages and disadvantages that make it more suitable for certain applications. Typically, the lower the frequency, the slower the data read rate and the better the ability to interact with a reader near wet or metal surfaces (which surfaces can interfere with radio waves).

The following table shows the relative performance characteristics and applications of systems employing the various tag frequencies:



Management of SAMSys believes that RFID technology has several advantages relative to the principal competitive AIDC technologies, including the following:

- RFID tags do not need to be in direct line-of-sight relative to the reader and accordingly, the tag may be placed under, within, or be entirely covered by the container or product to which it is attached. Furthermore, dirt or other opaque substances will not normally affect the readability of the tag. These advantages of RFID technology also enhance batch reading capability;
- RFID tags can be provided with a read/write capability, thereby enabling the user to repeatedly change information regarding the status, contents or physical condition of the item;
- RFID tags can store large amounts of data and can be used to track objects in near-real time;
- The operating range of RFID systems can exceed that of optical or contact-based systems;
- RFID tags can be read without physical contact or operator intervention;
- Data on a RFID tag cannot be erased by strong magnetic fields;
- RFID tags are extremely accurate and, when encrypted, are difficult to counterfeit; and
- RFID tags can be attached to surfaces not ideally suited to any of the alternative AIDC systems and can be physically designed to accommodate difficult or unusual shapes.

However, RFID technology is also subject to certain disadvantages, including:

- significantly higher tag costs over bar code labels;
- complexity associated with producing RFID devices compared with bar code labels and scanners; and
- potential interference with tag to reader communications from other devices using radio frequencies (such as cellular phones) or from electromagnetic noise from machinery operating in the area.

The advantages of RFID technology over competing AIDC technologies have spawned a variety of RFID applications, many of which are commonly used today:

- security systems to control access to restricted areas or by authorized individuals;
- theft prevention through real time tracking of objects;
- library management to eliminate manual checkout and reduce theft;
- animal tagging of livestock and pets;
- electronic toll collection (e.g., Highway 407 north of Toronto, Ontario);
- consumer payment systems for various types of merchandise, particularly gasoline (e.g., Exxon Mobil's Speedpass™ and Shell's ezPAY™);

- various military applications, including tracking shipments of military supplies; and
- inventory and supply chain management.

#### *RFID Market*

Venture Development Corporation (“VDC”), a market research and strategy firm specializing in the RFID industry, estimated in January 2003 that the global market for RFID systems in 2002 was U.S. \$964.5 million, inclusive of tags, readers, software and related services. VDC expects the RFID market to reach approximately U.S. \$2.7 billion by 2007.

The expected growth in the RFID industry will likely be driven by three factors:

- **Decreasing production costs for RFID tags:** RFID technology has been around for many years. Only now, however, is the cost of producing RFID tags declining to the point at which placing RFID tags on mass quantities of individual items is becoming economically feasible. With increasing interest in RFID technology from large, influential retailers (see below), economies of scale can be achieved by producers which should further help to drive the cost of tags down.
- **Adoption of industry standards:** The Uniform Code Council, Inc. and EAN International have assumed the work of the Massachusetts Institute of Technology Auto-ID Center in developing designs and standards for flexible, low-cost RFID tags and readers, under the new name EPCglobal, Inc. As standards evolve, it is likely that potential users of RFID technology will feel less reluctance to make RFID investments.
- **Utilization by large, influential retailers:** Wal-Mart Stores Inc., Target Corporation, The Home Depot Inc. and the U.S. Department of Defence have all publicly expressed interest in and support for RFID technology as a means of improving supply chain logistics. Similarly, consumer product firms such as The Gillette Company and The Procter & Gamble Company have begun to embrace RFID technology and were early sponsors of the standardization efforts of the Auto-ID Center.

#### **SAMSys’ Readers**

SAMSys’ philosophy regarding the application of RFID technology has been built upon the premise that no single protocol or frequency can provide an optimum solution to all end-users. As a result, for several years SAMSys has continued to develop its passive RFID reader technology which is designed to support the broadest possible array of protocols and frequencies. This technology enables a wide variety of RFID tags to be read by the same reader network, regardless of the tag’s manufacturer or the frequency at which the tag operates. It is through the development of this technology that SAMSys seeks to establish itself as the reader supplier of choice for the RFID industry.

SAMSys has developed families of both short range and long range RFID readers, the characteristics of which are as follows:

**Short Range Readers:** The SAMSys MP9111 and MP9112 models are low frequency readers while the MP9210 model and the SAMSys Conveyor Reader operate in the high frequency range, each with an integrated antenna. These short range readers have been designed for use in warehouse logistics, inventory management, product authentication, smart shelves, access control, library management and various point-of-sale applications where the required read range is less than one metre.

*Low Frequency, Low-Power Readers:* The MP9111 and MP9112 models are low-cost, multi-protocol proximity readers. These RFID readers support a variety of tag protocols including Atmel (Temic) e5550, EM Marin H4102, and Texas Instruments TIRIS in addition to supporting anti-collision protocols such as Philips Hitag 1. The tag protocols supported by the MP9111 and MP9112 models substantially expand the scope of potential end-users of these products.

The MP9111 and MP9112 models work as stand-alone solutions or in a networked reader environment using the SAMSys Interrogator Control and Concentrator Module (“ICCM”), described below. These readers are available as board-level modules which can be integrated into an end-user’s equipment or used as fully-enclosed readers housed in an ABS plastic case. They can also be connected to other SAMSys readers operating at any of the supported frequencies to blend their respective functionalities into advanced multi-frequency, multi-protocol solutions.

*High Frequency, Low-Power Readers:* The MP9210 model is a low-cost, multi-protocol RFID proximity reader. This reader is designed for short-range RFID applications. The MP9210 model can be connected to other SAMSys readers operating at any of the supported frequencies to blend their respective functionalities into advanced multi-frequency, multi-protocol solutions. The reader currently supports the following protocols: Philips I-Code, Texas Instruments Tag-It, ISO 15693, and EPC Class 1 HF.

The MP9210 model can be used as a stand-alone solution or in a networked environment using the SAMSys ICCM. This reader is ready for use in an end-user’s equipment or as a fully enclosed reader housed within an ABS plastic case. The MP9210 model includes an integrated antenna that makes it easy to set up and use.

*High Frequency Conveyor Reader:* The Conveyor Reader is a reliable, high-performance warehouse logistics solution. Using low-cost, high frequency technology, this system is uniquely configured to read ISO 15693 tags attached to cartons moving on conveyors and other material handling devices. With increased reliability over optical bar codes which can be scuffed or damaged, the Conveyor Reader detects tags on the front, rear, sides, and tops of packages. Also, the Conveyor Reader is low maintenance compared to bar code readers which require frequent cleaning. Since the Conveyor Reader does not require direct line-of-site, the system reduces the need for manual carton placement or expensive orientation devices. The system easily interfaces with conveyor controllers and warehouse management systems increasing material handling capabilities and improving logistics information management. The Conveyor Reader can be deployed as a single, stand-alone RFID solution or in multiple reader, networked configurations using the SAMSys ICCM.

**Long Range Readers:** The SAMSys MP9120, MP9121 and MP9122 models are low frequency readers and the SAMSys MP9320 model is an ultra-high frequency reader. Each of these readers is equipped with an external antenna and have been designed for forklift mounted applications, aggregated container tracking, access control, item-level logistics, asset management, animal tagging, parking lot access, baggage tracking and pallet tracking where the required read range is up to three metres.

*UHF Long-Range Reader:* The MP9320 model provides flexibility for a variety of applications by supporting a variety of UHF tag protocols. Incorporating robust, scalable architecture, the MP9320 model is upgradeable to new and emerging protocols and standards. This flexibility provides defense against future obsolescence, thereby “future-proofing” a UHF hardware investment. With its extended read range and high data rates, the MP9320 model is especially suited for asset management and logistics applications requiring the simultaneous reading of a large number of tags at greater distances. With radio frequency connections available for up to four antennas, the MP9320 model easily adapts to loading dock and portal installations for aggregated container tracking, pallet tracking, and inventory management. The first release of the MP9320 model supports the ISO 18000-6A and -6B protocols, along with the EM Marin 4022 and new 4222 device. Also, the MP9320 model can be implemented as a stand-alone UHF solution or included in a networked reader environment using the SAMSys ICCM.

*Low Frequency, High-Power Reader:* The MP9120 model is ideally suited for stationary applications requiring long read ranges. The MP9120 model can be connected to other SAMSys readers operating at any of the supported frequencies to blend their respective functionalities into advanced multi-frequency, multi-protocol solutions. The reader supports a variety of tag protocols including Atmel (Temic) e5550 and its successors, EM Marin H4102 and its successors, Microchip MCRF 250, and Texas Instruments TIRIS. Tags with anti-collision protocols are also supported including Atmel (Temic) 5558, EM 4025, and Philips Hitag 1. In addition, new protocols are continually being added in response to customer requirements thereby providing end-users with enhanced flexibility. The MP9120 model can be implemented as a stand-alone solution or included in a networked reader environment using the SAMSys ICCM. This reader is ready for integration into an end-user’s equipment or as a fully-enclosed reader housed in an aluminium case. A large antenna can be positioned up to several feet away. Antenna sizes will vary from application to application, depending on the desired read range and other functional requirements.

To complement its readers, SAMSys offers a variety of integration tools including networking and connectivity platforms. For example, multiple readers can be connected to the SAMSys ICCM through its RS-485 reader network which in turn can be connected to an ethernet hub or network server. This allows for data collected from RFID tags to be stored and manipulated according to customer specific software applications and facilitates remote downloading of custom applications from a host server. SAMSys also custom develops stand alone industrial solutions for most RFID environments.

**Interrogator Control and Concentrator Module:** The ICCM provides users with flexibility for accessing SAMSys RFID readers. With the ICCM, users can interface and manage multiple readers resulting in a truly scalable RFID network solution. With its VGA touch-screen LCD and built-in web server, the ICCM supports multiple communication protocols and data flow between RFID tags and readers, including 10base T Ethernet. In addition, the ICCM contains a Forth Interpreter to allow users to put their own custom applications on the module.

## Marketing and Distribution

SAMSys has adopted a three-pronged strategy for marketing and distributing its reader products.

- **Direct to large end-users:** Many large end-users have the internal resources and capability to deal directly with vendors when evaluating and implementing AIDC solutions for their internal systems. SAMSys has in the past and continues to market its products directly to end-users that could employ RFID technologies on a large scale, such as in warehouse logistics.
- **Original Equipment Manufacturing:** SAMSys seeks to extend its served market by expanding its product line beyond SAMSys branded fixed and mobile readers into original equipment manufacturing (“OEM”) modules for incorporation into other products. SAMSys is also capable of producing specialized OEM readers to be branded for sale by others. In distributions through OEMs, SAMSys may not be directly visible to the end user as the source of the RFID equipment. The OEM modules are designed for incorporation into smart-label printers, handheld devices, machinery for process control, and other niche applications. OEM module readers will typically be highly customized devices based upon full-featured SAMSys readers but which have unwanted features removed or custom features added, and be repackaged to fit the specific space requirements of the application. In some circumstances OEM products will be brand new designs made possible by the experience of the SAMSys engineering group. The specialized OEM readers will be closely based upon standard SAMSys products but modified to add distinguishing features for some particular application. SAMSys’ OEM strategy is intended to balance the importance of building the SAMSys brand against the opportunity to address a market segment or channel that would not otherwise be addressable by SAMSys.
- **Value Added Resellers:** SAMSys established a value added reseller (“VAR”) program in mid-2002 and has signed agreements with approximately 20 established resellers since that time. The VAR agreements are essentially distribution agreements whereby resellers incorporate SAMSys products into the RFID solutions they provide for their customers. SAMSys’ VAR partners cover a variety of different industries and functions including automotive, consumer products, healthcare and pharmaceutical, military, pallet tracking, supply chain and distribution logistics, transportation, and warehouse management.

## Consulting Services

In June 2003, SAMSys announced its intention to provide RFID consulting services to assist customers in determining whether RFID could solve a customer-specific business problem and, if so, which RFID technology to use. These consulting services are offered directly to end-users and to business consultants lacking experience with RFID technology who are assisting their clients in determining whether and how to employ the technology.

The goal of the consulting service is to minimize the risk to customers of premature technology obsolescence and excessive capital investment by identifying for customers where RFID technologies can help solve a business problem, and then offering a scalable solution that provides the customer with the ability to easily add to or modify its RFID investment. The consulting service focuses on the front-end of the RFID system, specifically the portion of the system having to do with the tag, the reader, and the interface between the two. SAMSys’ consulting service

does not focus on middle-ware software between the reader and the host computer. Once an end-user has determined that RFID could improve their business processes, either through an internal return on investment (“ROI”) analysis or by an ROI analysis performed by a third-party business consultant, SAMSys’ consulting service offers to assist the end-user to determine which RFID technology and tag type to use and whether the technology can sustain the assumptions of the ROI analysis. This technical analysis is performed for a fee and typically includes a basic RFID training session for the customer’s management team, a review of the facilities that are candidates for conversion to RFID, and a report recommending whether to proceed, which processes should be converted first, and how a pilot should be structured. This pilot recommendation can then result in a subsequent contract for SAMSys in which hardware is supplied and installed, tests are performed and conclusions are drawn as to whether a limited rollout should proceed. It is expected that in the future, as the logistics market for RFID matures, SAMSys’ consulting services will grow to become more like traditional AIDC systems integration services which focus on overall system design and installation.

While the system integration space for RFID is a large one, SAMSys focuses its value-add on the issues pertaining to the selection, integration, and installation of the tag and RFID reader elements, leaving the integration of the reader with the host computer to middle-ware providers and traditional IT (information technology) providers. SAMSys also does not do business process consulting, a necessary step to proving or disproving the case for the use of RFID. Instead, it works in collaboration with traditional business consultants who perform this function but who lack knowledge as to whether RFID can provide the functionality assumed by their business case models.

Once the business case is made for the use of RFID and it is known which RFID technology can provide the required functionality, SAMSys offers system design and implementation services to perform field testing, piloting, and staged rollouts. These design and implementation services are not conditional upon the use of SAMSys readers. In the situation where SAMSys does not have a suitable product or where other vendors’ products may be better suited, SAMSys will specify, procure, and install other brands of RFID reader products.

### **Target Markets and Competition**

**RFID Reader Products:** SAMSys has targeted asset and supply chain management as the key markets for its RFID reader products as management believes that these two markets will be the drivers of broader adoption of RFID technology. According to Allied Business Intelligence, a technology research firm focused on the wireless industry, in 2002 these two markets comprised only 27% of the total number of RFID tag shipments worldwide. By 2007, however, it is estimated that 70% of tags shipped worldwide will be used in asset and supply chain management applications. Management of SAMSys believes that the market for RFID readers designed for use in these applications will keep pace, creating a significant opportunity for SAMSys.

*Asset Management:* This market includes applications used to monitor the flow of people, equipment and documents within a building, yard, terminal, etc. in order to tighten control over assets and keep a more accurate inventory of items, including individuals. Specific applications within asset management include records/document tracking, people tracking, equipment tracking and yard management.

*Supply Chain Management:* RFID systems are ideally used for the identification of high unit value products or delivery units moving through a supply chain. RFID systems also offer the durability essential for permanent identification of product carriers such as boxes, crates and pallets.

The market for RFID products is competitive and is affected by new product introductions and other market activities of RFID and AIDC industry participants. Management of SAMSys believes that the principal competitive factors affecting the market include product functionality, price, quality, effectiveness of sales and marketing efforts and company reputation.

SAMSys’ competitive marketplace includes RFID tag manufacturers that make readers designed to read their own tag technology and are sold along with the tags in pilots, and reader manufacturers that produce readers that read tags of other manufacturers. Although in this early stage of the RFID industry’s development tag manufacturers would appear to have an advantage in being able to sell a packaged tag/reader solution, management believes that upon broader adoption of RFID, customers will appreciate the limitations of readers that do not have multi-

frequency/multi-protocol capacity. Management expects that upon broader adoption of RFID, manufacturers will choose to focus on either tags or readers, rather than a full RFID solution.

**RFID Consulting Services:** Currently, there are numerous information technology (IT) and business consulting companies offering services related to RFID technology, including major IT consulting service providers such as Accenture, Hewlett-Packard and IBM Global Services. However, management of SAMSys believes that it complements traditional IT consulting service providers due to its enhanced understanding of RFID technologies and their capabilities in asset and supply chain management applications. Management of SAMSys believes that as the market for RFID matures, SAMSys' consulting services business will have the opportunity to grow to become more like traditional AIDC systems integration services which focus on overall system design and installation.

The following table identifies players in the RFID industry which SAMSys considers relevant from a competitive perspective. To the knowledge of SAMSys, these entities compete in the market by offering the products and services shown below.

<u>Name</u>	<u>Tags and Readers</u>	<u>Readers Only</u>	<u>RFID-specific Consulting</u>
SAMSys Technologies Inc.		X	X
Alien Technology Corporation	X		
AWID		X	
EPC Group Ltd.			X
Escort Memory Systems	X		X
Intermec Technologies Corp.	X		X
Matrics Inc.	X		
Philips Semiconductors	X		
SCS Corporation	X		
SIRIT (a division of iTECH Capital Corp.)	X		
Texas Instruments Incorporated	X		
Thing Magic LLC		X	
Tyco Sensormatic	X		

## **Business Strategy**

SAMSys' business strategy is based on the following key components:

- **Maintain Technology Leadership:** SAMSys is involved in the design and deployment of passive RFID reader technology, and management of SAMSys believes that its technology is on the leading edge of reader design. SAMSys intends to maintain and enhance its position through focused research and development activities and the protection and development of its intellectual property.
- **Expand VAR and OEM Relationships:** SAMSys intends to expand its distribution capabilities and customer network by expanding its relationships with VARs and OEMs.
- **Attract Highly Qualified Employees:** Within the last two years, SAMSys has grown the number of its employees to from 16 to 25, including the hiring of a new President and Chief Operating Officer and two senior employees with extensive experience in the RFID industry, sales, product development and

manufacturing. See “Directors and Officers”. SAMSys will continue to assess its needs and seek to attract highly qualified employees whenever necessary or desirable.

- **Continue Involvement in Establishing Standards:** SAMSys was a sponsor of the Auto-ID Center and is a sponsor of its successor, EPC Global. SAMSys is also an active participant in the ISO 18000-6 standards initiative, a project aimed at creating standards for UHF tag and reader protocols. SAMSys intends to continue to work with and support the efforts of these organizations to create global standards for the RFID industry which are expected to minimize one of the main impediments to acceptance of RFID technology. See “Risk Factors”. Management of SAMSys believes that its association with these organizations keeps it at the forefront of the industry as new protocols and standards evolve.

## **Intellectual Property**

SAMSys’ success depends partially on its ability to maintain the proprietary aspects of its technology and operate without infringing on the intellectual property rights of others. SAMSys relies on a combination of trade secrets, trade-marks, patents, copyrights and contractual restrictions to protect its intellectual property.

Technology licensed from third parties has been incorporated into SAMSys’ products. Management of SAMSys believes that third party licences can provide a faster and more efficient way of improving SAMSys’ products while freeing resources for other research and development activities. One component of SAMSys’ intellectual property is its licence for the Supertag technology from BTG. SAMSys’ research and development activities (described below) have led to the development of proprietary intellectual property which is independent of and which complements the Supertag technology. Included in such intellectual property are four patents and 12 patent applications filed by, registered in the name of, or assigned to SAMSys including Registration No. U.S. 6,496,806 – A Method and System for Tracking Clustered Items, Registration No. U.S. 6,346,881 – A Tag Evaluation Module for Radio Frequency Identification (RFID) Systems, Registration No. U.S. 6,617,962 – A System for Multi-Standard RFID Tags, and Registration No. U.S. 6,191,708 – A Method and System for Providing Information Regarding the Location of a Vehicle, each of which was issued or assigned to SAMSys in the last two years. Companies competing in technology industries such as SAMSys are subject to certain risks relating to their intellectual property rights. See “Risk Factors”.

## **Research and Development**

SAMSys conducts its research and development activities principally at its North Carolina facility through HDII. Research and development activities in North Carolina are focussed on the continued design, development and improvement of its RFID technology. In addition, RFIP Solutions conducts research and development activities in the United Kingdom relating to RFID technologies in the ultra-high frequency band. SAMSys has committed to funding RFIP Solutions with \$449,000 over the next four months in addition to the \$351,000 provided to date.

## **Manufacturing**

SAMSys outsources the manufacture of its products to a third party based in Richmond Hill, Ontario. The third party provides electronic manufacturing services to SAMSys and currently produces between 100 and 150 readers per month with the capacity to produce more than 500 per month. After being built, SAMSys conducts final testing of the products prior to their being shipped to the customer. In the event that SAMSys’ third party manufacturer experiences production problems or reaches its capacity, management of SAMSys believes that manufacturing could be switched to other manufacturers with little or no cost or disruption.

## **Facilities and Employees**

SAMSys has leased approximately 2,752 square feet for its head office at 44 East Beaver Creek Road, Richmond Hill, Ontario for a term expiring on July 14, 2004. SAMSys also maintains approximately 7,204 square feet of office space in Durham, North Carolina pursuant to a lease expiring on June 30, 2007. Both of these leases are on usual commercial terms. Management of SAMSys believes that the Richmond Hill and North Carolina facilities are sufficient to meet its present needs.

As of September 30, 2003 SAMSys employed 21 people, including SAMSys' senior officers. None of the employees is represented by a union or is subject to a collective bargaining agreement. SAMSys has never experienced a work stoppage and its management believes that relations with its employees are good.

### **Trends and Uncertainties**

The sales cycle for a typical implementation of a comprehensive RFID system varies based on the size of the end-user's supply chain and the complexity of the application. During 2003 SAMSys generated revenues primarily from the sale of demonstration and evaluation units to its VAR partners and to end-users. SAMSys will continue to seed the market with the expectation that these evaluation customers will be converted to additional pilot projects followed by limited rollouts and finally scaled deployment over an end-user's entire supply chain.

SAMSys will continue to invest in the development of its innovative RFID products and will aggressively market these products in cooperation with its partners. Based on the expected growth of the RFID market, SAMSys believes it can manage its cash flows with existing resources until positive cash flows are generated. Modifications to strategies are being made continually in order to be proactive to changing conditions in the markets in which SAMSys competes.

### **Dividend Policy**

SAMSys has not in the past and does not intend in the foreseeable future to pay dividends on its Common Shares. SAMSys intends to retain its earnings to finance the growth and development of its business. The Board of Directors of SAMSys will review this policy from time to time having regard to SAMSys' financing requirements, its financial condition and other factors considered relevant.

## **SELECTED CONSOLIDATED FINANCIAL INFORMATION**

### **Selected Financial Information**

The following table sets forth selected consolidated financial information of SAMSys for the fiscal years ended September 30, 2002, 2001 and 2000 and for the nine months ended June 30, 2003 and 2002. The following selected financial information is derived from, should be read in conjunction with, and is qualified in its entirety by reference to SAMSys' consolidated financial statements, including the notes thereto, and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus. See "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations".

	<b>Nine Months Ended June 30 (unaudited)</b>		<b>Fiscal Years Ended September 30</b>		
	<b>2003</b>	<b>2002</b>	<b>2002</b>	<b>2001</b>	<b>2000</b>
Revenue	\$ 188,678	\$ 1,337,456	\$ 1,378,493	\$ 3,089,861	\$ -
Cost of Sales	90,183	871,906	906,000	2,040,396	-
Gross profit	98,495	465,550	472,493	1,049,465	-
Interest Income	80,951	34,963	84,863	47,869	47,693
Expenses	6,328,481	4,600,511	6,429,318	3,908,499	695,071
Loss before income tax	(6,149,035)	(4,099,998)	(5,871,962)	(2,811,165)	(647,378)
Income taxes	-	-	33,104	6,433	-
Loss for the period	(6,149,035)	(4,099,998)	(5,905,066)	(2,817,598)	(647,378)
Basic and diluted loss per share	\$ (0.21)	\$ (0.18)	\$ (0.25)	\$ (0.15)	\$ (0.04)
Weighted number of shares outstanding	28,725,898	22,428,713	24,012,694	18,600,471	17,204,204

	<b>As at June 30 (unaudited)</b>	<b>As at September 30</b>	
	<b>2003</b>	<b>2002</b>	<b>2001</b>
Total assets	\$ 4,493,326	\$ 10,283,759	\$ 6,343,710
Total liabilities	460,021	326,419	291,626
Shareholders equity	\$ 4,033,305	\$ 9,957,340	\$ 6,052,084

### Quarterly Information

The following table is a summary of selected quarterly financial information (unaudited) of SAMSys for each of the eight quarters indicated below.

<b>For the Three Months Ended</b>	<b>Revenue</b>	<b>Gross Profit</b>	<b>Net Loss</b>	<b>Basic and Diluted Loss per Share</b>
June 30, 2003	103,041	47,933	(2,013,769)	(0.07)
March 31, 2003	45,538	27,037	(2,059,643)	(0.07)
December 31, 2002	40,099	23,525	(2,075,623)	(0.07)
September 30, 2002	41,037	6,943	(1,805,068)	(0.09)
June 30, 2002	177,240	62,029	(1,707,380)	(0.06)
March 31, 2002	518,846	197,590	(1,250,104)	(0.06)
December 31, 2001	641,370	205,931	(1,142,514)	(0.04)
September 30, 2001	748,498	290,200	(749,691)	(0.04)

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with SAMSys' consolidated financial statements, and the notes thereto, contained elsewhere in this prospectus.

### Results of Operations

*Nine Months Ended June 30, 2003 Compared to the Nine Months Ended June 30, 2002*

#### *Revenue*

Total revenue for the nine months ended June 30, 2003 was \$188,678 compared to \$1,337,456 for the nine months ended June 30, 2002. The decrease was primarily the result of the completion of SAMSys' engagement with International Paper Co. ("IP") near the end of fiscal 2002. SAMSys had been engaged by IP to design, develop and manufacture a variety of reader solutions on behalf of IP's customers for various pilot projects, and SAMSys provided consulting and design services, as well as the supply of product, for these various projects on a "time and materials" basis.

Revenues in the first three quarters of fiscal 2003 were derived primarily from the sale of demonstration and evaluation units to SAMSys' VAR partners and to end-users.

#### *Cost of sales*

Cost of sales consists primarily of allocated engineering salaries as well as the variable cost of materials, travel and sub-contract fees from third parties. As a result of the decreased revenue activity in the year, there was a corresponding reduction in the allocation of engineering salaries to cost of sales. Engineering costs not associated directly with revenue are included in research and development expenses. Overall, cost of sales for the nine months ended June 30, 2003 decreased to \$90,183 from \$871,906 for the same period ended June 30, 2002.

#### *General and administrative*

General and administrative expenses include primarily: all salaries and related expenses (including benefits and payroll taxes) of SAMSys other than salaries and related expenses paid to SAMSys personnel engaged in research and development and sales and marketing activities; facility costs; professional fees; insurance costs; investor relations and foreign exchange expenses. SAMSys incurred general and administrative expenses for the nine months ended June 30, 2003 totalling \$1,642,834 compared to \$1,355,515 for the nine months ended June 30, 2002. The increase in costs is partly attributable to an increase in salary and related expenses resulting from staff hired to accommodate the growth of SAMSys, and an increase in facility costs associated with the relocation of SAMSys' operations in North Carolina. In addition, general and administrative expenses in the first nine months of fiscal 2003 included membership fees incurred as a result of SAMSys' announced membership in the Massachusetts Institute of Technology Auto-ID Center.

#### *Sales and marketing*

Sales and marketing expenses consist primarily of salaries and related expenses of SAMSys' sales and marketing personnel, public relations fees paid to third parties, and promotional material. SAMSys incurred sales and marketing expenses for the nine months ended June 30, 2003 totalling \$567,319, compared to \$257,775 for the nine months ended June 30, 2002. The increase in sales and marketing expenses is partly attributable to the increase in salaries and related costs resulting from the addition of staff directly engaged in SAMSys' continued transition from a technology-based company to one that is product-driven. In addition, SAMSys engaged the services of a public relations firm and completed the development of a fully functional demonstration centre in its North Carolina facility.

### *Research and development*

SAMSys began amortization of its deferred product development costs over a three year period in fiscal 2001. SAMSys recorded amortization of such costs for the nine months ended June 30, 2003 of \$1,487,883, equal to the nine months ended June 30, 2003.

All research and development costs are expensed in the year incurred. Research and development expenses consist primarily of costs relating to the licensing and development of SAMSys' proprietary technology including salaries and related costs of personnel directly engaged in these activities, and direct materials. Research and development costs expensed in the first nine months of fiscal 2003 were \$2,533,123 as compared to \$1,404,221 in the first nine months of fiscal 2002. During the nine month period ended June 30, 2003 SAMSys' continued to invest in research and development activities for its passive RFID reader products, including ultra-high frequency reader products designed specifically for logistics and supply chain applications. The increase in research and development costs is primarily attributable to the increase in salaries and related expenses from the addition of staff to complete SAMSys' product development program.

### **Year Ended September 30, 2002 Compared to the Year Ended September 30, 2001**

Throughout 2002, SAMSys progressed towards commercialization of its expanding library of proprietary products and technologies. SAMSys continued to invest in the development of its innovative RFID products and aggressively marketed these products in co-operation with its alliance partners.

### *Revenue*

Total revenue for the year ended September 30, 2002 was \$1,378,493 compared to \$3,089,861 for the year ended September 30, 2001. During fiscal 2002, SAMSys continued its engagement as IP's primary RFID reader supplier to design, develop and manufacture a variety of reader solutions on behalf of IP's customers for various pilot projects. Throughout fiscal 2001 and 2002, SAMSys provided consulting and design services, as well as the supply of product, for these various projects on a "time and materials" basis. Revenues from IP represented 88% of SAMSys' sales during fiscal 2002 and 95% during fiscal 2001. SAMSys completed its engagement with IP during the fourth quarter of fiscal 2002.

### *Cost of sales*

As a result of decreased revenue activity in the year, there was a corresponding reduction in the allocation of engineering salaries to cost of sales. Overall, cost of sales for the year ended September 30, 2002 decreased to \$906,000 from \$2,040,396 for the year ended September 30, 2001.

### *General and administrative*

SAMSys incurred general and administrative expenses for the year ended September 30, 2002 totalling \$1,621,565, compared to \$1,110,056 for the year ended September 30, 2001. The increase in costs is partly attributable to the acquisitions of 100% of HDC and HDII which were completed during the first quarter of fiscal 2001. The increase is also attributable to an increase in salary and related expenses resulting from staff hired to accommodate the growth of SAMSys, and an increase in facility costs associated with the relocation of SAMSys' operations in North Carolina.

### *Sales and marketing*

SAMSys incurred sales and marketing expenses for the year ended September 30, 2002 totalling \$607,584, compared to \$326,585 for the year ended September 30, 2001. During fiscal 2002 SAMSys engaged the services of a public relations firm, attended the FrontLine Solutions trade show and commenced the development of a fully functional demonstration center in its North Carolina facility as part of its transition from a technology-based company to one that is product-driven. The increase in sales and marketing expenses is also partly attributable to the increase in salaries and related costs resulting from the addition of staff directly engaged in these activities.

### *Research and development*

Deferred product development costs amortized for the year ended September 30, 2002 were \$1,983,843 and represented the second year of amortization.

All research and development costs are expensed in the year incurred. Research and development costs expensed in fiscal 2002 were \$2,082,007 as compared to \$379,242 in fiscal 2001. As SAMSys' revenue decreased during the fiscal year, the activity of the research and development group transitioned from a direct cost of sale to traditional research and development. This transition, together with the increase in salaries and related expenses from the addition of staff to complete SAMSys' product development program, was the primary reason for the increase in research and development expenses. Additionally, in April 2002 SAMSys announced the commencement of a joint venture with BTG. SAMSys has proportionately consolidated its 50% interest in the joint venture and recorded the costs as research and development.

### **Year Ended September 30, 2001 Compared to the Year Ended September 30, 2000**

Throughout 2001, SAMSys progressed towards commercialization of its expanding library of proprietary products and technologies. SAMSys continued to invest in the development of its innovative RFID products in fiscal 2002 and aggressively marketed these products in co-operation with its alliance partners.

### *Revenue*

Total revenue for the year ended September 30, 2001 was \$3,089,861 compared to \$0 for the year ended September 30, 2000. During fiscal 2001, SAMSys announced that it had been selected by IP as its primary RFID reader supplier to design, develop and manufacture a variety of reader solutions on behalf of IP's customers for various pilot projects. SAMSys provided consulting and design services, as well as the supply of product, for these various projects on a "time and materials" basis. The resultant billings were recognized as revenue by SAMSys. Revenues from IP represented 95% of SAMSys' sales during the year with the remaining 5% coming from existing customers of HDC and HDII.

### *Expenses*

SAMSys incurred expenses for the year ended September 30, 2001 totalling \$3,908,499, compared to \$695,071 for the year ended September 30, 2000. The increase is attributable principally to the acquisitions of 100% of HDC and HDII and the resulting increase in operating costs.

### *Research and Development Expense*

With the commencement of commercial operations in fiscal 2001, SAMSys began amortization of its deferred product development costs over a three year period commencing on October 1, 2000. Amortization costs for the year ended September 30, 2001 relating to the deferred product development costs were \$1,983,843 as compared to \$0 for the year ended September 30, 2000. In addition, all research and development costs incurred in fiscal 2001 were expensed. Research and development costs consist of costs relating to the licensing and development of SAMSys' proprietary technology including direct salaries, materials, and an allocation of overhead expenses. Research and development costs expensed in fiscal 2001 were \$379,242 as compared to \$0 in fiscal 2000.

### **Liquidity and Capital Resources**

To date, SAMSys has financed its working capital requirements through funds received from the issuance of securities on a private placement basis and cash received from ongoing operations. SAMSys has not incurred any long term debt to fund its activities.

During the first nine months of fiscal 2003, gross proceeds received by SAMSys in connection with the exercise of warrants amounted to \$225,000.

As of June 30, 2003 SAMSys had \$2,789,260 in cash, a decrease from \$8,192,579 on June 30, 2002. Included in cash on June 30, 2003 was \$624,771 which could only be used to fund SAMSys' share of the funding requirements for its joint venture with BTG. Given SAMSys' cash position and its revenue prospects for the fiscal year, management determined that additional financing was required to meet its planned operations and expenditures. As a result, on October 15, 2003 SAMSys closed the private placement of Special Warrants for gross proceeds of \$13,200,000. SAMSys anticipates that its current cash resources will be sufficient to finance planned operations and expenditures for the foreseeable future. Cash resources will be supplemented through cash from operations and may also include cash received on the exercise of options and the Warrants. Short-term borrowing will be used if required.

### **Outlook**

SAMSys believes that it is well positioned to capitalize on the projected growth in the RFID industry given its comprehensive line of reader products, support of a broad range of protocols, strong intellectual property position, focus on asset management and supply chain management applications, and the knowledge and skill of its management and staff.

It is expected that revenue generated in fiscal 2004 will be earned from the continued sale of evaluation units and development kits, from the continued development and implementation of RFID reader hardware solutions related to pilot programs and commercial rollouts, and from the expansion of SAMSys' RFID consulting business.

## **DESCRIPTION OF SHARE CAPITAL**

The authorized share capital of SAMSys consists of an unlimited number of Common Shares, an unlimited number of special shares ("Special Shares") issuable in series and 2,500,000 Convertible Special Shares of which 31,089,072 Common Shares, 2,500,000 Convertible Special Shares and no Special Shares are issued and outstanding as of the date of this prospectus.

The following is a summary of the material provisions of the share capital of SAMSys.

### **Common Shares**

The holders of Common Shares are entitled to vote at all meetings of shareholders except meetings at which only holders of a specified class of shares are entitled to vote. Each Common Share entitles its holder to one vote at any such meeting. The holders of Common Shares are entitled to receive the remaining property of SAMSys upon the dissolution of SAMSys, subject to the rights, privileges, restrictions and conditions attaching to any other class of shares of SAMSys issued and outstanding at such time.

### **Special Shares**

The Special Shares are issuable in series. Subject to SAMSys' articles, the Board of Directors is authorized to fix, before issuance of a particular series of Special Shares, the designation, rights, privileges, restrictions and conditions attaching to such series. The Special Shares of each series shall rank equally with the Special Shares of every other series and be entitled to a preference over the Common Shares and any other shares ranking junior to the Special Shares with respect to the payment of dividends or any distribution of assets or return of capital in the event of a liquidation, dissolution or winding-up of SAMSys. To date, no Special Shares have been issued by SAMSys, nor has any series of Special Shares been authorized by the Board of Directors for issuance.

### **Convertible Special Shares**

Subject to the articles of SAMSys and to applicable law, the Convertible Special Shares are non-voting. The Convertible Special Shares rank equally with the Common Shares with respect to the payment of dividends and the distribution of assets in the event of the liquidation, dissolution or winding-up of SAMSys. On a change of control transaction, as described in SAMSys' articles, the Convertible Special Shares may be converted into Common Shares on a one-for-one basis. In certain other circumstances, the holder of Convertible Special Shares has 90 days

within which it is entitled to convert all, but not less than all, of the Convertible Special Shares into Common Shares on a one-for-one basis. As of the date of this prospectus, the Convertible Special Shares are not eligible for conversion into Common Shares. The conversion right attaching to the Convertible Special Shares expires on May 31, 2005 unless the 90 day conversion period described above has previously become effective and expired.

Commencing on the business day following the expiry of the conversion right attaching to the Convertible Special Shares, SAMSys may redeem all of the Convertible Special Shares for \$0.0001 per share plus the amount of any declared and unpaid dividends on the Convertible Special Shares.

## DESCRIPTION OF WARRANTS

The Warrants were created and will be issued pursuant to the terms of the Warrant Indenture. SAMSys has appointed the principal office of Computershare Trust Company of Canada in Toronto, Ontario as the location at which the Warrants may be surrendered for exercise or transfer. The following summary of certain provisions of the Warrant Indenture does not purport to be complete and is qualified in its entirety by reference to the provisions of the Warrant Indenture.

Each whole Warrant will entitle the holder thereof to purchase one Common Share at a price of \$1.50 at any time prior to 5:00 p.m. (Toronto time) on October 13, 2006, at which time the Warrants will expire and become null and void. The exercise price and the number of Common Shares issuable upon exercise are both subject to adjustment in certain circumstances as more fully described below. Under the Warrant Indenture, SAMSys will be entitled to purchase, by private contract or otherwise, any of the Warrants then outstanding, and any Warrants so purchased will be cancelled.

The Warrant Indenture provides for adjustment in the number of Common Shares issuable upon the exercise of the Warrants upon the occurrence of certain events, including:

- (a) a reclassification of the Common Shares outstanding at any time, a change of the Common Shares into other shares or securities, or any other capital reorganization;
- (b) a consolidation, amalgamation or merger of SAMSys with or into any other corporation (except where such event does not result in a reclassification of the Common Shares or a change of the Common Shares into other shares or securities);
- (c) a transfer of the undertaking or assets of SAMSys as an entirety or substantially as an entirety to another entity;
- (d) the subdivision of the Common Shares into a greater number of Common Shares;
- (e) the consolidation of the Common Shares into a lesser number of Common Shares;
- (f) the issuance of Common Shares to all or substantially all of the holders of outstanding Common Shares (other than a “dividend paid in the ordinary course”, as defined in the Warrant Indenture);
- (g) the fixing of a record date for the issuance of rights, options or warrants to all or substantially all of the holders of the outstanding Common Shares under which such holders are entitled, during a period expiring not more than 45 days after the record date for such issuance, to subscribe for or purchase Common Shares, or securities convertible into or exchangeable for Common Shares, at a price per share or at a conversion or exchange price per share of less than 95% of the “current market price”, as defined in the Warrant Indenture, for the Common Shares on such record date; and
- (h) the fixing of a record date for the issuance or distribution to all or substantially all of the holders of the outstanding Common Shares of securities including rights, options or warrants to acquire “equity shares”, as defined in the Warrant Indenture, or securities convertible into or exchangeable

for “equity shares” or any property or assets including evidences of indebtedness or the issuance or distribution to all or substantially all of the holders of the outstanding Common Shares of any property or other assets.

SAMSys has covenanted in the Warrant Indenture that, during the period in which any Warrants remain outstanding, it will give notice to holders of Warrants of certain stated events, including events that would result in an adjustment to the acquisition rights attaching to the Warrants at least 14 days prior to the record date or effective date, as the case may be, of such event.

No fractional Common Shares will be issuable upon the exercise of any Warrants. In lieu of fractional Common Shares, SAMSys shall pay to any holder who would otherwise be entitled to acquire a fractional interest in a Common Share upon the exercise of Warrants an amount equal to the then “current market price”, as defined in the Warrant Indenture, of such fractional interest, provided that SAMSys shall not be required to make any such payment that is less than \$10. Holders of Warrants will not have any voting rights or any other rights which a holder of Common Shares would have.

From time to time, SAMSys and Computershare Trust Company of Canada, as trustee, without the consent of the holders of Warrants, may amend or supplement the Warrant Indenture for certain purposes, including curing defects or inconsistencies or making any change that does not adversely affect the rights of any holder of Warrants. Any amendment or supplement to the Warrant Indenture that adversely affects the interest of the holders of Warrants may only be made by “extraordinary resolution”, which is defined in the Warrant Indenture as a resolution either: (1) passed at a meeting of the holders of Warrants duly convened for that purpose at which there are holders of Warrants present in person or represented by proxy representing at least 25% of the aggregate number of Common Shares that can be acquired pursuant to all the then outstanding Warrants and passed by the affirmative vote of holders of Warrants entitled to acquire not less than 66<sup>2</sup>/<sub>3</sub>% of the aggregate number of Common Shares that can be acquired pursuant to all the then outstanding Warrants represented at the meeting and voted on the poll upon such resolution; or (2) adopted by an instrument in writing signed by the holders of Warrants representing not less than 66<sup>2</sup>/<sub>3</sub>% of the aggregate number of Common Shares that can be acquired pursuant to the then outstanding Warrants.

### CONSOLIDATED CAPITALIZATION

The following table sets forth the consolidated capitalization of SAMSys as at September 30, 2002 and as at June 30, 2003, both actual and as adjusted to give effect to the exercise or deemed exercise of the Special Warrants (after deducting the Agents’ fees and the estimated expenses of the offering).

	<b><u>Outstanding as at September 30, 2002</u></b>	<b><u>Outstanding as at June 30, 2003</u></b>	<b><u>Outstanding as at June 30, 2003 as adjusted</u></b>
	(audited)	(unaudited)	(unaudited)
<b>Shareholders’ Equity:</b>			
Common Shares (Authorized – unlimited)	\$22,188,827 (28,725,898 shares)	\$22,412,827 (29,025,898 shares)	\$34,385,427 (41,025,898 shares <sup>(1)</sup> )
Special Shares (Authorized – unlimited)	-	-	-
Convertible Special Shares (Authorized – 2.5 million)	\$250 (2,500,000 shares)	\$250 (2,500,000 shares)	\$250 (2,500,000 shares)
Retained Earnings (Deficit)	(12,230,737)	(18,379,772)	(18,379,772)
<b>Total Capitalization</b>	<b><u>\$9,957,340</u></b>	<b><u>\$4,033,305</u></b>	<b><u>\$16,005,905</u></b>

Note:

(1) Includes 12,000,000 Common Shares issuable upon the exercise or deemed exercise of 12,000,000 Special Warrants issued on October 15, 2003 for net proceeds to SAMSys of \$11,972,600 after deducting the Agents' fee and the estimated expenses of the offering, but does not include 6,650,300 Common Shares issuable upon exercise of options and warrants outstanding on June 30, 2003, the 1,080,000 Compensation Options to be issued to the Agents or the 6,000,000 Warrants issuable upon the exercise or deemed exercise of the Special Warrants. See "Options to Acquire Common Shares".

## DIRECTORS AND OFFICERS

The names, municipalities of residence, positions held with SAMSys and principal occupations of the directors and senior officers of SAMSys are indicated in the following table:

<u>Name and Municipality of Residence</u>	<u>Position with SAMSys</u>	<u>Director Since</u>	<u>Number of Common Shares Beneficially Owned or Controlled</u>	<u>Principal Occupation</u>
David Armstrong <sup>(1)(2)</sup> Summertown, United Kingdom	Director	April 2002	nil	Senior Vice President, BTG plc <sup>(5)</sup>
Jeff Berkow <sup>(1)</sup> Beverly Hills, California	Director	July 1996	5,000 <sup>(3)</sup>	President, Bradley Component Supplies, Inc. <sup>(6)</sup>
William Davidson Durham, North Carolina	Director, Executive Vice President and Chief Technology Officer	November 2000	533,820	Executive Vice President and Chief Technology Officer of SAMSys
Clifford Horwitz Toronto, Ontario	Director, Chairman and Chief Executive Officer	July 1996	3,590,067 <sup>(4)</sup>	Chairman and Chief Executive Officer of SAMSys
William McClean <sup>(1)</sup> Toronto, Ontario	Director	June 2002	nil	Vice President – Manufacturing, Development and Marketing Operations, IBM Canada Limited <sup>(7)</sup>
Gerald Wimmer Toronto, Ontario	Director	July 1998	nil	President, First Public Financial Corp. and Managing Director, INVESTORFILE.COM <sup>(8)</sup>
Thomas Zender <sup>(2)</sup> Irvine, California	Director	April 1997	nil	President and Chief Executive Officer, Unity <sup>(9)</sup>
James Wiley, Holly Springs, North Carolina	President and Chief Operating Officer	-	nil	President and Chief Operating Officer of SAMSys
George Kypreos Aurora, Ontario	Vice President, Chief Financial Officer and Secretary	-	nil	Vice President, Chief Financial Officer and Secretary of SAMSys

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Notes:

- (1) Member of the Audit Committee.
- (2) Member of the Compensation Committee.
- (3) Upon the exercise or deemed exercise of the Special Warrants, Mr. Berkow will own an additional 55,000 Common Shares and his spouse will own 17,500 Common Shares.
- (4) Common Shares owned by 1434843 Ontario Limited, a corporation owned by Mr. Horwitz's spouse.
- (5) BTG plc is a United Kingdom company involved in commercializing intellectual property rights.
- (6) Bradley Component Supplies, Inc. is involved in the manufacturing of bed frames and pallets and the distribution of other products for the bedding industry.
- (7) IBM Canada Limited is involved in the creation, development and manufacturing of advanced information technologies.
- (8) First Public Financial Corp. is a financial and investor relations company. INVESTORFILE.COM is a division of First Public Financial Corp. which provides investor relations services to SAMSys.
- (9) Unity is a not-for-profit organization involved in publishing educational materials.

Each director holds office until the next annual meeting of shareholders.

Information as to the number of Common Shares beneficially owned or controlled by the directors and senior officers, not being within the knowledge of SAMSys, has been provided by each of the directors and senior officers. As of the date of this prospectus, the directors and senior officers of SAMSys, as a group, own beneficially, directly or indirectly, or exercise control or direction over, 4,128,887 Common Shares representing approximately 13.3% of the outstanding Common Shares before giving effect to the exercise or deemed exercise of Special Warrants.

Except as noted below, each of the directors and officers of SAMSys has been engaged in his present principal occupation during the last five years.

*William Davidson* – Prior to joining SAMSys in November 2000, for 15 years Mr. Davidson acted as the President of HDC, an electronic research and development firm specializing in designing and implementing radio frequency and wireless communication tracking devices. HDC is now a wholly-owned subsidiary of SAMSys.

*Clifford Horwitz* - Mr. Horwitz also served as President of SAMSys from June 1998 to April 2003.

*Thomas Zender* – Prior to joining Unity, Mr. Zender was a partner of Angel Strategies LLC from June 2000 to October 2001. Prior to that, Mr. Zender owned and operated a management consulting business.

*James Wiley* – Mr. Wiley joined SAMSys as Chief Operating Officer in May 2002 and was appointed President in April 2003. From August 1999 to May 2002, Mr. Wiley acted as Strategy Manager for emerging businesses within Texas Instruments' RFID Systems Business. Prior to that, Mr. Wiley was employed by Motorola in various engineering, program management, business development and marketing roles.

*George Kypreos* – Mr. Kypreos also served as Financial Controller of SAMSys from July 1998 to March 2000.

### **Corporate Cease Trade Orders or Bankruptcies**

To the knowledge of management of SAMSys, no director or officer of SAMSys, or any shareholder holding a sufficient number of securities of SAMSys to affect materially its control, is or has been, within the 10 years preceding the date of this prospectus, a director or officer of any other issuer which, while that person was acting in that capacity:

- (a) was the subject of a cease trade or similar order, or any order that denied the other issuer access to any statutory exemptions for a period of more than 30 consecutive days; or

- (b) became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets.

### **Penalties or Sanctions**

To the knowledge of management of SAMSys, no director or officer of SAMSys or any shareholder holding a sufficient number of securities of SAMSys to affect materially its control, has:

- (a) been subject to any penalties or sanctions imposed by a court relating to Canadian securities legislation or by a Canadian securities regulatory authority or has entered into a settlement agreement with a Canadian securities regulatory authority; or
- (b) been subject to any other penalties or sanctions imposed by a court or regulatory body that would be likely to be considered important to a reasonable investor making an investment decision.

### **Personal Bankruptcies**

No director or officer of SAMSys or any shareholder holding a sufficient number of securities of SAMSys to affect materially its control, or a personal holding company of any such persons has, within the 10 years before the date of this prospectus, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or been subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or officer.

### **Conflicts of Interest**

Certain of the directors of SAMSys also serve as directors or officers of other companies involved in a wide range of industry sectors; consequently, there exists the possibility for such directors to be in a conflict of interest.

Conflicts of interest will be subject to the applicable provisions of the *Canada Business Corporations Act* and may result in a director abstaining from voting on a resolution of the board of directors which evokes a conflict in order to have the matter resolved by the independent directors, or the matter may be presented to the shareholders of SAMSys for ratification. When a conflict of interest arises, the directors of SAMSys must, in accordance with applicable provisions of the *Canada Business Corporations Act*, act honestly and in good faith with a view to the best interests of SAMSys and must exercise the care, diligence and skill a reasonably prudent person would exercise in comparable circumstances.

David Armstrong, a director of SAMSys, is a senior officer of BTG. BTG is a principal shareholder of SAMSys and has entered into a joint venture with SAMSys. See “General Development of the Business” and “Interests of Management and Others in Material Transactions”.

### **Committees of the Board of Directors**

The Board of Directors of SAMSys has established an Audit Committee and a Compensation Committee. The Audit Committee’s mandate includes the following functions:

- meet with external auditors (together with and separate from management) to inquire into the effectiveness and adequacy of SAMSys’ financial and accounting organization, auditing and internal controls and to discuss financial reporting issues;
- review and recommend to the Board of Directors for approval the annual and interim financial statements (including the external auditors’ report on the annual financial statements);
- review public disclosure documents containing financial information relating to SAMSys; and

- review the nature and scope of the annual audit of SAMSys and make recommendations concerning engagement or re-appointment of external auditors for review by the Board of Directors and approval by shareholders and review the non-audit services performed by the independent auditors.

The Compensation Committee's mandate includes reviewing and recommending to the Board of Directors for approval the level and form of compensation payable to the executive officers of SAMSys and reviewing and recommending to the Board of Directors for approval incentive plans for SAMSys.

### EXECUTIVE COMPENSATION

The following table sets forth all compensation paid for each of the fiscal years in the three year period ended September 30, 2003 in respect of the Chief Executive Officer of SAMSys and the three other executive officers who earned salary and bonus of more than \$100,000 during the most recently completed fiscal year (the "Named Executive Officers").

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long Term Compensation	All other Compensation (\$)
		(\$) Salary	(\$) Bonus	Other Annual Compensation (\$)	Securities Under Options Granted <sup>(1)</sup> (#)	
Clifford Horwitz, Chairman and Chief Executive Officer	2003	131,850 <sup>(2)</sup>	-	234,400 <sup>(3)(4)</sup>	200,000	-
	2002	73,500	-	276,950 <sup>(3)(4)</sup>	300,100	-
	2001	-	-	300,000 <sup>(3)(4)</sup>	250,000	-
William Davidson, Executive Vice President and Chief Technology Officer	2003	293,000 <sup>(2)</sup>	-	-	100,000	-
	2002	261,100 <sup>(4)</sup>	-	-	150,100	-
	2001	244,800 <sup>(4)</sup>	-	-	400,000	-
James Wiley, <sup>(5)</sup> President and Chief Operating Officer	2003	241,725 <sup>(2)</sup>	-	-	100,000	-
	2002	96,875 <sup>(4)</sup>	23,250 <sup>(4)</sup>	-	300,000	-
	2001	-	-	-	-	-
George Kypreos, Vice President, Chief Financial Officer and Secretary	2003	125,000	-	-	100,000	-
	2002	113,750	20,000	-	100,100	-
	2001	110,000	-	-	50,000	-

Notes:

- (1) Options to purchase Common Shares granted pursuant to SAMSys' Stock Option Plan.
- (2) Included are amounts paid in U.S. dollars which were converted into Canadian dollars at an exchange rate of 1.465, the average exchange rate for the year.
- (3) Represents management fees paid in respect of Mr. Horwitz's services.
- (4) Included are amounts paid in U.S. dollars which were converted into Canadian dollars at an exchange rate of 1.55, the average exchange rate for the year.
- (5) Mr. Wiley joined SAMSys on May 1, 2002.

The following tables provide information regarding options granted and exercised during the most recently completed financial year, and options held as of the end of the most recently completed financial year, by the Named Executive Officers.

**Option Grants for the Fiscal Year Ended  
September 30, 2003**

Name	Securities Under Options Granted <sup>(1)</sup> (#)	% of Total Options Granted to Employees in Financial Year	Exercise Price (\$/Security)	Market Value of Securities Underlying Options on the Date of Grant (\$/Security)	Expiration Date
Clifford Horwitz	200,000	16.1	0.72	0.72	March 31, 2008
William Davidson	100,000	8.1	0.72	0.72	March 31, 2008
James Wiley	100,000	8.1	0.72	0.72	March 31, 2008
George Kypreos	100,000	8.1	0.72	0.72	March 31, 2008

Note:

(1) Options granted vest equally in thirds over three years beginning on April 1, 2004.

**Aggregated Option Exercises During the Fiscal Year Ended September 30, 2003  
and Option Values as at September 30, 2003**

Named Executive Officer	Securities Acquired on Exercise	Aggregate Value Realized (\$)	Unexercised Options at September 30, 2003 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options at September 30, 2003 (\$) <sup>(1)</sup> Exercisable/ Unexercisable
Clifford Horwitz	-	-	1,000,100/400,000	47,047/234,000
William Davidson	50,000	40,000	500,100/200,000	23,547/117,000
James Wiley	-	-	100,000/300,000	58,000/186,000
George Kypreos	-	-	131,768/183,332	22,014/101,333

Note:

(1) Based on a price of \$1.42, the closing price of the Common Shares on the TSX Venture Exchange on September 30, 2003.

**Services Agreements**

On April 4, 2002 SAMSys entered into Service Agreements with each of Clifford Horwitz, William Davidson and George Kypreos. The Service Agreements do not specify compensation or change of control provisions. However, each of these agreements contains an acknowledgement that all work products made, authored, conceived of, developed or otherwise produced by the employee during his employment with SAMSys shall remain the property of SAMSys and the employee shall not have any rights in such work products. The employees agreed to assign to SAMSys all of their rights in the work products and to waive all of their rights to them.

Each of the service agreements also contain non-competition and non-solicitation covenants in favour of SAMSys that survive for one year following the termination of employment with SAMSys.

## Compensation of Directors

With the exception of David Armstrong, all of the directors who are not officers of SAMSys are paid a fee of \$1,500 and normal expenses for attending each meeting of the Board of Directors or a Committee. In addition, each of Thomas Zender, Jeff Berkow and William McClean are paid a yearly fee of \$5,000 for serving as a director. Directors of SAMSys are also entitled to participate in the stock option plan.

## Directors' and Officers' Insurance

SAMSys maintains directors' and officers' insurance in the amount of \$3,000,000, subject to a \$25,000 deductible loss payable by SAMSys, to insure SAMSys' directors and officers for losses as a result of claims made against them in their capacity as directors and officers. The current annual premium in respect of such insurance of approximately \$28,174 is paid by SAMSys.

## OPTIONS TO ACQUIRE COMMON SHARES

As of November 28, 2003 SAMSys had outstanding options to acquire 4,515,569 Common Shares.

### Stock Option Plan

SAMSys' Stock Option Plan (the "Plan") was established to provide an incentive to, and to recognize the contribution to SAMSys of, certain eligible persons. The Board of Directors determines which eligible persons are to be granted options and determines the exercise price of the options granted, which exercise price cannot be less than the last closing price of the Common Shares on the TSX Venture Exchange (the "Venture Exchange") on the trading day immediately preceding the day on which the option is granted. No options may be outstanding for a term greater than 10 years.

The Plan currently provides that the aggregate number of Common Shares that may be issued under the Plan, together with the aggregate number of Common Shares which are reserved for issuance under options previously granted, may not exceed 5,700,000 Common Shares.

The following table sets forth details with respect to options to purchase Common Shares outstanding as of November 28, 2003.

### Outstanding Options to Purchase Common Shares

Optionees	Common Shares Under Option (#)	Exercise Price (\$/Share)	Expiry Date	Market Value on Date of Grant (\$/Share)
Executive Officers (4 individuals)	685,000	6.70	March 25, 2005	6.70
	50,000	2.35	June 26, 2005	2.35
	250,000	2.65	November 19, 2005	2.65
	450,000	2.88	March 25, 2006	2.88
	515,567	0.95	April 3, 2007	0.95
	300,000	0.84	May 5, 2007	0.84
	500,000	0.72	March 31, 2008	0.72
Directors who are not also executive officers (5 individuals)	80,000	1.21	July 18, 2004	1.21
	150,000	6.70	March 25, 2005	6.70
	150,000	2.88	March 25, 2006	2.88
	150,000	0.95	April 3, 2007	0.95
	50,000	0.73	December 9, 2007	0.73
	200,000	0.72	March 31, 2008	0.72

<b>Optionees</b>	<b>Common Shares Under Option (#)</b>	<b>Exercise Price (\$/Share)</b>	<b>Expiry Date</b>	<b>Market Value on Date of Grant (\$/Share)</b>
Employees (16 individuals)	16,667	0.95	January 18, 2004	0.95
	5,000	0.73	January 18, 2004	0.73
	20,000	6.70	March 25, 2005	6.70
	15,000	2.40	July 25, 2005	2.40
	30,000	2.65	November 19, 2005	2.65
	90,000	1.72	December 21, 2005	1.72
	45,000	2.88	March 25, 2006	2.88
	40,000	2.35	May 1, 2006	2.35
	46,667	0.95	November 25, 2006	0.95
	233,334	0.95	April 3, 2007	0.95
	158,334	0.73	December 9, 2007	0.73
	235,000	0.72	March 31, 2008	0.72
	50,000	1.28	July 17, 2013	1.28

### PRINCIPAL SHAREHOLDERS

As of November 27, 2003 the persons or companies who owned of record, or who to the knowledge of SAMSys owned beneficially, directly or indirectly, more than 10% of the outstanding Common Shares are indicated in the following table:

<b>Shareholder</b>	<b>Type of Ownership</b>	<b>Number of Common Shares Owned</b>	<b>Percentage of Common Shares Before Giving Effect to this Offering</b>	<b>Percentage of Common Shares After Giving Effect to this Offering <sup>(1)</sup></b>
CDS & Co. <sup>(2)</sup>	Registered	18,477,983	59.4%	42.9%
BTG International Limited	Registered and Beneficial	8,000,000	25.7%	20.4% <sup>(3)</sup>
1434843 Ontario Limited <sup>(4)</sup>	Beneficial	3,590,067	11.5%	8.3%

Notes:

- (1) As adjusted to reflect the issuance of 12,000,000 Common Shares upon the exercise or deemed exercise of the Special Warrants but not the Common Shares issuable upon the exercise of Warrants or the Compensation Options to be issued to the Agents.
- (2) It is management's understanding that Common Shares registered in the name of CDS & Co. are owned by brokers and others on behalf of clients and others and the identities of the beneficial owners of such Common Shares are not known to SAMSys.
- (3) Includes 800,000 Common Shares issuable to BTG International Limited upon the exercise or deemed exercise of Special Warrants.
- (4) All of the issued and outstanding shares of 1434843 Ontario Limited are held by Joanne Horwitz, the spouse of Clifford Horwitz who is director and officer of SAMSys.

## INTERESTS OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

On April 4, 2002 SAMSys completed transactions with BTG pursuant to which BTG acquired 8,000,000 Common Shares at a price of \$1.10 per share and 2,500,000 Convertible Special Shares for non-cash consideration of \$0.72 per share. At that time, SAMSys also finalized a joint venture with BTG to develop technologies in the ultra-high frequency band. SAMSys and BTG each agreed to invest \$800,000 and contribute intellectual property and know-how to the joint venture. Technical milestones for the joint venture have been established. If the technical milestones are met, subject to certain other conditions, BTG may convert the Convertible Special Shares into an equal number of Common Shares. Otherwise, the Convertible Special Shares will be redeemed for nominal consideration.

On October 15, 2003 BTG purchased 800,000 Special Warrants for an aggregate subscription price of \$880,000 payable to SAMSys. No commissions were paid to the Agents in connection with BTG's subscription. BTG currently owns approximately 25.7% of the outstanding Common Shares. Upon the exercise or deemed exercise of all of the Special Warrants but prior to the exercise of any Warrants, BTG's ownership of outstanding Common Shares will decrease to approximately 20.4%.

Also on October 15, 2003, Jeff Berkow, a director of SAMSys, purchased 55,000 Special Warrants and Mr. Berkow's spouse purchased 17,500 Special Warrants for proceeds of \$74,167.50 payable to SAMSys after deducting the Agents' commission. Mr. Berkow currently owns 5,000 Common Shares. Upon the exercise or deemed exercise of all of the Special Warrants, Mr. Berkow will own less than 0.1% of the outstanding Common Shares.

Investor relations services are provided to SAMSys by INVESTORFILE.COM, a division of First Public Financial Corp. ("First Public Financial"). Gerald Wimmer, a director of SAMSys, is the President and sole shareholder of First Public Financial. In the 12 months prior to the date of this prospectus, SAMSys has paid approximately \$82,000 to First Public Financial in respect of investor relations services.

## PRIVATE PLACEMENT AND PLAN OF DISTRIBUTION

On October 15, 2003 SAMSys issued and sold 12,000,000 Special Warrants on a private placement basis pursuant to an agency agreement (the "Agency Agreement") dated October 15, 2003 between First Associates Investments Inc., Clarus Securities Inc. (collectively, the "Agents") and SAMSys, at a price of \$1.10 per Special Warrant. The price of the Special Warrants was determined by negotiation between SAMSys and the Agents and in accordance with the policies of the Venture Exchange. The Special Warrants were sold pursuant to subscription agreements (the "Subscription Agreements") to investors identified by the Agents. The sales were effected pursuant to prospectus and registration exemptions under applicable securities legislation. The distribution of the Common Shares and Warrants to be issued upon the exercise or deemed exercise of the Special Warrants is qualified under this prospectus. The gross proceeds of the issue and sale of the Special Warrants were \$13,200,000 and the aggregate fee payable to the Agents in connection with the offering was \$862,400. Expenses estimated at \$365,000 relating to the issue and sale of the Special Warrants and of this prospectus have been or will be paid out of the proceeds of sale of the Special Warrants. No additional fee will be payable to the Agents in connection with the issuance of Common Shares and Warrants upon the exercise or deemed exercise of the Special Warrants. As additional consideration for the Agents' services, SAMSys issued to the Agents 1,080,000 agents' special warrants, equivalent to 9% of the number of Special Warrants sold, which entitle the Agents to acquire the same number of non-assignable compensation options ("Compensation Options"). Each Compensation Option entitles the holder to purchase one Common Share at a price of \$1.10 at any time prior to 5:00 p.m. (Toronto time) on October 14, 2005. This prospectus also qualifies for distribution 600,000 Compensation Options issuable to the Agents.

The Special Warrants were created and issued under a special warrant indenture (the "Special Warrant Indenture") dated October 15, 2003 between Computershare Trust Company of Canada, as trustee, and SAMSys. Each Special Warrant is exercisable for one Common Share and 0.5 of a Warrant without payment of additional consideration. The Special Warrants are exercisable at any time before 5:00 p.m. (Toronto time) (the "Expiry Time") on the earlier of: (1) the fifth business day after the date on which each of the securities regulators in the Qualifying Jurisdictions has issued a receipt for a (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants; and (2) October 15, 2004. In certain limited

circumstances, the Expiry Time may also be 5:00 p.m. (Toronto time) on the date on which, in the opinion of SAMSys' counsel, the Common Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants would no longer be subject to resale restrictions under applicable securities laws. Any Special Warrants not exercised before the Expiry Time will be deemed to be exercised immediately prior to the Expiry Time without any further action by the holder. The Special Warrant Indenture provides that if a receipt for the (final) prospectus qualifying the distribution of the Common Shares and Warrants issuable on the exercise or deemed exercise of the Special Warrants has not been issued by each of the securities regulators in the Qualifying Jurisdictions on or prior to January 13, 2004 a holder of Special Warrants shall be entitled to acquire, upon exercise or deemed exercise of each Special Warrant, 1.08 Common Shares in lieu of one Common Share and 0.54 of a Warrant in lieu of 0.5 of a Warrant, without payment of additional consideration. This prospectus will also qualify the distribution of the additional Common Shares and Warrants issuable if this penalty (the "Late Filing Penalty") is incurred. If a receipt for the (final) prospectus has not been issued by each of the securities regulators in the Qualifying Jurisdictions on or prior to January 13, 2004 SAMSys will nevertheless continue to be obligated to use its commercially reasonable efforts to obtain receipts for the (final) prospectus until the Expiry Time.

The Warrants were created and will be issued under a warrant indenture (the "Warrant Indenture") dated October 15, 2003 between Computershare Trust Company of Canada, as trustee, and SAMSys. Each whole Warrant will entitle the holder thereof to purchase one Common Shares at an exercise price of \$1.50 until 5:00 p.m. (Toronto time) on October 13, 2006 after which time the Warrants will expire and be of no value. The Warrant Indenture contains provisions designed to protect the holders of Warrants against dilution upon the occurrence of certain events. No fractional Common Shares will be issued on the exercise of any Warrants.

The Common Shares and Warrants issuable upon the exercise or deemed exercise of the Special Warrants have not been and will not be registered under the *United States Securities Act of 1933*, as amended and, subject to certain exceptions, may not be offered or sold within the United States.

SAMSys has applied to list the Warrants distributed under this prospectus on the Venture Exchange. Listing will be subject to SAMSys fulfilling all the listing requirements of the Venture Exchange.

The Venture Exchange has approved the listing of the Common Shares issuable upon the exercise or deemed exercise of the Special Warrants, the exercise of Warrants, and the exercise of Compensation Options (including, in each case, those issuable if the Late Filing Penalty is incurred).

Pursuant to the Agency Agreement, SAMSys has agreed that during the period commencing October 15, 2003 and ending on January 13, 2004 it shall not, without the prior written consent of First Associates Investments Inc., such consent not to be unreasonably withheld, offer, or announce the offering of, or enter into any agreement or understanding, or announce the entering into of any agreement or understanding, to issue, sell or exchange any Common Shares or securities exchangeable for or convertible into Common Shares, provided that SAMSys may grant stock options under its existing stock option plan and issue Common Shares to the holders of such options or other options existing at the date hereof and issue any Common Shares to satisfy any existing rights.

Pursuant to a Subscription Agreement with an institutional investor for Special Warrants, SAMSys granted to the investor the right to rescind its commitment and to receive a full refund of its purchase price, plus interest, in the event that there is a material difference between the facts disclosed in this prospectus and those disclosed in the offering documents prepared in connection with the private placement of the Special Warrants. In the Agency Agreement, SAMSys agreed to extend similar rights to all subscribers for Special Warrants in the event that: (1) the Ontario Court of Justice, or the applicable court of appeal, finally determines (without right of appeal that is unexpired) that the investor is entitled to rescind its subscription for Special Warrants pursuant to such rights; or (2) SAMSys otherwise agrees to refund the investor's purchase price pursuant to such rights.

## USE OF PROCEEDS

SAMSys intends to use the net proceeds from the sale of Special Warrants as stated in this prospectus. There may be circumstances, however, where for sound business reasons, a reallocation of the proceeds may be necessary.

The net proceeds to SAMSys from the sale of Special Warrants are estimated to be \$11,972,600 after deducting the fee payable to the Agents of \$862,400 and the estimated expenses of the offering of \$365,000. SAMSys has used and intends to use the net proceeds to expand its sales and marketing activities to create greater demand for, and awareness of, its products, to continue funding its research and development program to enhance existing products and create new ones, to fund growth of its RFID integration consulting services, and for general working capital purposes.

## PRICE RANGE AND TRADING VOLUME OF COMMON SHARES

The Common Shares are listed and posted for trading on the Venture Exchange under the symbol "SMY". The following table sets forth the high and low sale prices per share and trading volumes for the Common Shares as reported by the Venture Exchange for the periods indicated:

	<u>High</u>	<u>Low</u>	<u>Volume</u>
<b><u>2001</u></b>			
Fourth Quarter	1.25	0.67	1,005,438
<b><u>2002</u></b>			
First Quarter	1.25	0.79	1,559,545
Second Quarter	0.98	0.50	877,074
Third Quarter	0.75	0.39	759,429
Fourth Quarter	0.86	0.28	2,820,799
<b><u>2003</u></b>			
First Quarter	0.98	0.57	858,642
Second Quarter	1.68	0.51	1,881,996
July	1.48	0.95	1,369,362
August	1.35	1.11	527,006
September	1.80	1.21	1,396,198
October	2.44	1.22	2,572,279
November	3.25	2.21	2,949,600

On August 29, 2003, the last trading day prior to the date on which the price of the Special Warrants was determined, the closing price of the Common Shares on the Venture Exchange was \$1.25 per share. On November 28, 2003 the closing price of the Common Shares on the Venture Exchange was \$2.63 per share.

## PRIOR SALES

During the 12 months prior to the date of this prospectus, SAMSys issued the following Common Shares:

<u>Common Shares Issued</u>	<u>Method</u>	<u>Exercise Price</u>
2,030,000	Exercise of Warrants	\$0.75
100,000	Exercise of Options	\$0.49
26,666	Exercise of Options	\$0.73
106,399	Exercise of Options	\$0.95
90,000	Exercise of Options	\$1.21
10,000	Exercise of Options	\$1.72

## RISK FACTORS

An investment in securities of SAMSys involves certain risks which should be carefully considered by investors and any investment should be considered highly speculative. The following risk factors, each of which could have a material adverse effect on SAMSys' business, financial condition and results of operations, should be considered carefully in addition to the other information contained in this prospectus before making an investment in securities of SAMSys.

### Early Stage of Development

SAMSys' targeted end-users will be required to make significant investments in their business processes and systems in order to achieve the intended benefits associated with RFID technology. There is no assurance that targeted end-users will be willing to make these investments and adopt RFID technology or, if they are, that they will choose SAMSys' RFID products and services. Although development of SAMSys' products described in this prospectus has been largely completed, sales of SAMSys' current products to date have been primarily for evaluation and pilot testing purposes, have yielded inconsistent revenues and there is no assurance that SAMSys' products will achieve commercial acceptance. SAMSys' consulting service was only recently launched and is also in the early stage of development, with less than five individuals involved in this aspect of the business. The consulting service faces competition from a number of large, well established competitors.

### Dependence on Market Growth

SAMSys is dependent upon growth in the market for RFID products. There are a number of impediments to broader adoption of RFID technology including: (1) the cost of producing tags remains prohibitively expensive for widespread use; (2) the cost of implementing a fully functional RFID system which, in addition to the cost of tags, includes the cost of readers and the supporting infrastructure and software required to manage RFID data; (3) the current lack of universal standards for RFID products, particularly with respect to the interaction of tags and readers; (4) the current lack of global frequencies for RFID technology; (5) the limited read range of low-cost tags makes them unsuitable for certain uses; (6) potential inaccuracy in RFID data caused by interference from other tags and/or readers or from other wireless devices and industrial equipment, or proximity to liquids or metals; and (7) concerns regarding the privacy of consumers who have purchased tagged items.

### Ability to Achieve Commercialization on a Timely Basis

SAMSys' success will depend, to a great extent, on its ability to achieve commercial sales of products incorporating its RFID technology on a timely basis. There can be no assurance that SAMSys' technology and products based on such technology will achieve commercial acceptance on a timely basis or that, if market acceptance is achieved, SAMSys will be able to maintain such acceptance for a significant period of time. Failure to obtain commercial

sales, or to achieve commercial sales on a timely basis, would have an adverse impact on SAMSys' financial condition and its ability to sustain its operations.

### **Net Losses Since Inception**

SAMSys has incurred net losses in each year since it entered the RFID market. There can be no assurance that SAMSys will achieve or sustain profitability. Failure to do so would impact SAMSys' ability to obtain additional funding or to sustain its operations.

### **Management of Expanding Operations**

If SAMSys achieves significant commercial sales of its products, it will be required to expand its operations rapidly, which will place significant demands on SAMSys' managerial, operational and financial personnel and systems. There can be no assurance that SAMSys' systems, procedures, controls and existing facilities will be adequate to support expansion of SAMSys' operations. SAMSys' future operating results will substantially depend on the ability of its officers and key employees to manage changing business conditions and to implement and improve its operational, financial control and reporting systems. If SAMSys is unable to respond to and manage changing business conditions, the quality of SAMSys' products and services, its ability to retain key personnel and its results of operations could be materially adversely affected.

### **Product Liability and other Claims related to its Customers' Business Operations**

Many of SAMSys' products will be critical to the operations of its clients' businesses and provide benefits that may be difficult to quantify. Any failure in a client's system or any intellectual property infringement claims against SAMSys by third parties could result in a claim for substantial damages against SAMSys by its customers, regardless of its responsibility for the failure or for the alleged intellectual property infringement. There can be no assurance that SAMSys' customer contracts will protect it in the event of any such claim. In addition, although it maintains general liability insurance coverage, including coverage for errors or omissions, there can be no assurance that this coverage will continue to be available on reasonable terms or will be available in sufficient amounts to cover one or more large claims, or that the insurer will not disclaim coverage.

### **Volatility in Research and Development**

SAMSys is active in the research and development of new products and technologies. SAMSys' research and development efforts may not lead to the successful introduction of new or improved products and SAMSys may encounter delays or problems in connection with its research and development efforts. New products often take longer to develop, have fewer features than originally considered desirable and achieve higher cost targets than initially estimated. There may be delays in starting volume production of new products and new products may not be commercially successful. Products under development are often announced before introduction and these announcements may cause customers to delay purchases of existing products until the new or improved versions of those products are available. Delays or deficiencies in development, manufacturing, delivery of or demand for new products or higher cost targets could have a material adverse effect on SAMSys' business, financial condition and results of operations.

### **Government Regulation**

SAMSys is subject to the risks associated with changes in Canadian, U.S. and foreign regulatory requirements. The RFID industry may be subject to further regulation due to concerns over consumer privacy, as RFID technology allows retailers to gather unprecedented amounts of information about store activity and customers. Recently, technology and consumer privacy experts have been called to testify at a California Senate hearing to consider the privacy implications of RFID and the introduction of RFID regulation. Although the introduction of legislation to control the use of RFID is possible, it is not expected that the legislation will ban the use of RFID.

## **Safety Risk**

Recently, there has been some concern over the potentially negative effects of electromagnetic emissions from cellular telephones. While SAMSys' RFID products do emit electromagnetic radiation, SAMSys believes that due to the low power output of its products and the logistics of their use, there is no health risk to end-users in the normal operation of its products. Furthermore, SAMSys believes that its products operate within all regulatory limits for safety. However, there can be no assurance that SAMSys' products will not become the subjects of safety concerns in the future. Such issues and the associated publicity could have a material adverse effect on SAMSys' business, financial condition and results of operations.

## **Future Need for Capital and Uncertainty of Additional Financing**

SAMSys may need to raise funds through public or private debt or equity financing in the event that its estimates of capital requirements change, or prove inaccurate, or in order for it to respond to unanticipated competitive pressures or to take advantage of unanticipated opportunities. There can be no assurance that additional financing will be available on terms favourable to SAMSys, or at all. If adequate funds are not available or are not available on acceptable terms, SAMSys may not be able to continue its technological development or take advantage of market opportunities to develop new products or otherwise to respond to competitive pressures or continue to be viable. Such inability could have a material adverse effect on SAMSys' business, financial condition and results of operations.

## **Competition**

The principal competitive factors affecting the market for SAMSys' products include vendor and product reputation; expertise and experience in implementing products in the customer's industry sector; product architecture, functionality and features; cost of ownership; ease and speed of implementation; customer support; product quality, price and performance; and product attributes such as flexibility, scalability, compatibility, functionality and ease of use. In order to be successful in the future, SAMSys must continue to respond promptly and effectively to technological change and competitors' innovations.

Many of its competitors and potential competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, greater name recognition and a larger installed base of customers than SAMSys. There can be no assurance that SAMSys' current or potential competitors will not develop products comparable or superior in terms of price and performance features to those developed by it. In addition, there can be no assurance that SAMSys will not be required to make substantial additional investments in connection with its research, development, marketing, sales and customer service efforts in order to meet any competitive threat, or that it will be able to compete successfully in the future. Increased competition may result in reductions in market share, pressure for price reductions and related reductions in gross margins, any of which could materially and adversely affect its ability to achieve its financial and business goals.

SAMSys' consulting business faces competition from other RFID companies and business consultants with expertise in technology-based industries. SAMSys' consulting business will likely face increased competition as the RFID market becomes more mature and greater opportunities arise for business consultants to collaborate with RFID companies.

## **Dependence on Third-Party Manufacturers**

SAMSys has developed outsourcing arrangements for the manufacture of its products. If its third-party manufacturers are unable to deliver quality products and components at reasonable prices on a timely basis, SAMSys' relationships with customers and ability to secure commercial sales would be negatively affected.

## **Dependence on Resellers and Distributors**

SAMSys intends to achieve a majority of its sales through VARs and distributors. Reliance upon third-party distribution sources subjects SAMSys to risks of business failure by such VARs and distributors, as well as credit,

inventory and business concentration risks. In addition, if there is a shortfall in demand from third-party distribution sources, SAMSys' operating results may be negatively affected.

### **Complexity of Products**

Many of SAMSys' new products and products under development are highly complex and innovative. As a result, they may contain defects or errors that are detected only after installation into its customers' systems which could have a negative impact on SAMSys' future revenues and its ability to meet its projections.

### **Intellectual Property**

SAMSys' success and competitiveness substantially depends on its internally-developed proprietary technologies which are protected through trade secrets, trademarks, copyrights and patents. Patent applications and trademark registrations may not be approved, or, if approved, may be challenged by third parties or invalidated. In addition, patents granted to SAMSys may not provide a distinctive or enduring competitive advantage.

SAMSys is also dependent on proprietary technologies licensed from third parties. There can be no assurance that these third party licenses will continue to be available to SAMSys in the future or that they will not be successfully challenged by third parties.

From time to time, third parties may assert claims or initiate litigation against SAMSys alleging that SAMSys' products infringe their proprietary rights. As the number of fulfilment and supply chain execution applications in the industry increases and products overlap, SAMSys may become increasingly subject to claims of infringement or misappropriation of the intellectual property rights of others. In addition, SAMSys may in the future initiate claims or litigation against third parties for infringement of its proprietary rights. Litigation claims, with or without merit, could be time-consuming and costly, divert management's attention, cause product shipment delays, and require SAMSys to develop non-infringing technology or enter into royalty or licensing agreements. Such agreements, if required, may not be available on acceptable terms, if at all, which could have a material adverse effect on SAMSys' business, financial condition and results of operations.

SAMSys may be subject to additional risks as it enters into transactions in countries where intellectual property laws are not well developed or are poorly enforced. Legal protections of its rights may be ineffective in such countries. Litigation to defend and enforce its intellectual property rights could result in substantial costs and diversion of resources and could have a material adverse effect on SAMSys' business, financial condition and results of operations, regardless of the final outcome of such litigation. Despite SAMSys' efforts to safeguard and maintain its proprietary rights in Canada, the United States and abroad, there can be no assurance that it will be successful in doing so, or that the steps taken by SAMSys in this regard will be adequate to deter misappropriation or independent third-party development of its technology or to prevent an unauthorized third party from copying or otherwise obtaining and using its products or technology. Any of these events could have a material adverse effect on SAMSys' business, financial condition and results of operations.

On October 24, 2003 SAMSys received correspondence from XCI Inc. ("XCI"), a corporation based in San Jose, California, indicating its ownership of patents relating to multi-protocol RFID systems and stating that it is examining whether SAMSys' multi-protocol product infringes upon one or more of such patents. SAMSys has confirmed that XCI owns patents relating to multi-protocol RFID systems, is assessing the situation and has not reached a conclusion at this time concerning any potential impact of XCI's patents on SAMSys' business. In the meantime, however, there can be no assurance that XCI will not commence litigation or other proceedings against SAMSys claiming infringement on its intellectual property rights, or that if it does so, such proceedings would not be determined adversely to SAMSys. Any adverse determination in connection with such a proceeding could have a material adverse effect on SAMSys' business, financial condition and results of operations or future prospects.

### **Dependence on Key Personnel**

A significant portion of SAMSys' management team has been in place for only a short period of time. James Wiley (President and Chief Operating Officer), Patrick Finn (Director of Sales) and Marvin Baker (Director of Product Development and Manufacturing) joined SAMSys in May, July and November of 2002, respectively.

SAMSys' success will depend upon the continued service of certain members of senior management, particularly Clifford Horwitz, Chairman and Chief Executive Officer, William Davidson, Chief Technology Officer and Mr. Wiley. The experience and established market relationships of Mr. Horwitz will be a key contributing factor to SAMSys' success and growth. Mr. Davidson is instrumental to SAMSys' research and development activities which are critical to the commercialization of its products. Mr. Wiley has more than 20 years experience with RFID and related technologies. The loss of any of Mr. Horwitz, Mr. Davidson or Mr. Wiley could have a material adverse effect on SAMSys' operations and business prospects.

#### **Ability to Attract and Retain Key Personnel**

SAMSys' success will depend significantly on its ability to attract, motivate and retain highly-skilled technical, managerial, consulting, sales and marketing personnel and professional services personnel. SAMSys competes intensely for these personnel, and it may be unable to achieve its personnel goals. Its failure to attract, motivate and retain such highly-skilled personnel could seriously limit its ability to expand its business.

#### **New Products and Technological Change**

The market for SAMSys' products is characterized by rapidly changing technology, evolving industry standards and frequent new product introductions. SAMSys' success will depend upon market acceptance of its products and its ability to enhance its products and to introduce new products and features to meet changing customer requirements. There can be no assurance that SAMSys will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing products. SAMSys' business would be adversely affected if it incurs delays in developing new products or enhancements or if such products or enhancements do not gain market acceptance. In addition, there can be no assurance that products or technologies developed by others will not render SAMSys' products or technologies non-competitive or obsolete.

#### **Fluctuations in Exchange Rates**

A significant portion of SAMSys' revenues and expenses are denominated in U.S. dollars and other foreign currencies. Fluctuations in the exchange rate between the U.S. dollar, other currencies, and the Canadian dollar may have a material adverse effect on SAMSys' business, financial condition and results of operations. SAMSys may use foreign currency hedging contracts to reduce this risk in the future.

#### **Absence of Public Trading Market for Warrants; Possible Volatility**

Currently there is no public market for the Warrants, and there can be no assurance that an active market for the Warrants will develop or be sustained in the future.

The offering price for the Special Warrants and the exercise price of the Warrants were determined by negotiation between SAMSys and the Agents and in accordance with the policies of the Venture Exchange, and may bear no relationship to the price of Common Shares or Warrants that prevails or will prevail on the market. Various factors, including the financial results of SAMSys and its competitors, announcements or new products by SAMSys or its competitors, general conditions in the RFID market, and the health of the overall economy and financial markets, may cause significant fluctuations in the price and trading volume of the Common Shares and Warrants.

### **TAX CONSEQUENCES**

Investors are advised to consult their own tax advisors with respect to the consequences of an investment in the Common Shares and Warrants.

### **LEGAL PROCEEDINGS**

There are no material legal proceedings to which SAMSys is a party or in respect of which any of its properties are subject and no such proceedings are known by SAMSys to be contemplated.

## LEGAL MATTERS

Certain legal matters relating to this offering have been and will be passed upon by Osler, Hoskin & Harcourt LLP on behalf of SAMSys, and by Baker & McKenzie on behalf of the Agents.

## AUDITORS' CONSENT

We have read the prospectus of SAMSys Technologies Inc. (the "Corporation") dated ●, 2003 relating to the distribution of Common Shares and Warrants of the Corporation upon the exercise or deemed exercise of previously issued Special Warrants. We have complied with Canadian generally accepted standards for auditors' involvement with offering documents. We consent to the use in the above-mentioned prospectus of our report to the shareholders of the Corporation on the consolidated balance sheets of the Corporation as at September 30, 2002 and 2001 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three year period ended September 30, 2002. Our report is dated November 1, 2002 (except for note 14 which is dated ●, 2003).

(signed) ●  
Toronto, Ontario  
●, 2003

## AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of SAMSys are DMCT, LLP, Chartered Accountants, 20 Eglinton Avenue West, Suite 2100, Toronto, ON M4R 1K8.

The registrar and transfer agent for the Common Shares is Computershare Trust Company of Canada, at its principal office in Toronto, Ontario, and it will also act as the registrar and transfer agent of the Warrants. Computershare Trust Company of Canada has been appointed trustee under each of the Special Warrant Indenture and the Warrant Indenture.

## MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contracts entered into by SAMSys within two years of the date of this prospectus which may reasonably be regarded as material are the following:

- (1) the Agency Agreement referred to under "Private Placement and Plan of Distribution";
- (2) the Subscription Agreements referred to under "Private Placement and Plan of Distribution";
- (3) the Special Warrant Indenture referred to under "Private Placement and Plan of Distribution";
- (4) the Warrant Indenture referred to under "Private Placement and Plan of Distribution";
- (5) a Common Share Subscription Agreement with BTG dated February 26, 2002;
- (6) a Convertible Special Share Subscription Agreement with BTG dated February 26, 2002;
- (7) a Registration Rights Agreement with BTG dated April 4, 2002;
- (8) a Unanimous Shareholders' Agreement with BTG and RFIP Solutions dated April 4, 2002;
- (9) a Research and Development Agreement with BTG and RFIP Solutions dated April 4, 2002; and
- (10) an Intellectual Property Agreement with BTG and RFIP Solutions dated April 4, 2002.

Copies of the foregoing contracts may be examined at the head office of SAMSys during normal business hours at any time during the course of distribution of the Common Shares and Warrants pursuant to this prospectus.

#### **PURCHASERS' STATUTORY RIGHTS OF WITHDRAWAL AND RESCISSION**

Securities legislation in certain of the provinces of Canada provides purchasers with the right to withdraw from an agreement to purchase securities. This right may be exercised within two business days after receipt or deemed receipt of a prospectus and any amendment. In several of the provinces, the securities legislation further provides a purchaser with remedies for rescission or, in some jurisdictions, damages if the prospectus and any amendment contains a misrepresentation or is not delivered to the purchaser, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province for the particulars of these rights or consult with a legal advisor.

#### **CONTRACTUAL RIGHTS OF ACTION FOR RESCISSION**

In the event that a holder of Special Warrants who acquires Common Shares and Warrants upon the exercise or deemed exercise of Special Warrants is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this prospectus or any amendment containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of Special Warrants, but also of the private placement, and shall be entitled in connection with such rescission to a full refund of all consideration paid to SAMSys on the acquisition of the Special Warrants. The foregoing is in addition to any other right or remedy available to a holder of Special Warrants under applicable securities legislation or otherwise at law and is subject to the defenses, limitations and other provisions of such legislation.

# **SAMSys Technologies Inc.**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended September 30, 2002, 2001 and 2000  
and for the Nine Months Ended June 30, 2003 and 2002 (unaudited)**

## AUDITORS' REPORT

To the Shareholders of  
**SAMSys Technologies Inc.**

We have audited the consolidated balance sheets of **SAMSys Technologies Inc.** as at September 30, 2002 and 2001 and the consolidated statements of earnings and deficit and cash flows for each of the years in the three year period ended September 30, 2002. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 2002 and 2001 and the results of its operations and cash flows for each of the years in the three year period ended September 30, 2002, in accordance with Canadian generally accepted accounting principles.

(signed) ●  
Toronto, Ontario

November 1, 2002 (except for note 14 which is dated ●, 2003)

# SAMSys Technologies Inc.

## Consolidated Balance Sheets

	Note	June 30, 2003 (unaudited)	Sept. 30, 2002	Sept. 30, 2001
<b>Assets</b>				
<b>Current</b>				
Cash and cash equivalents	2	\$ 2,789,260	\$ 7,225,780	\$ 744,074
Accounts receivable		102,758	97,884	693,652
Prepays and sundry assets		178,429	164,410	124,577
		3,070,447	7,488,074	1,562,303
Property, plant and equipment	4	305,725	247,283	225,689
Goodwill		503,572	503,572	538,892
Product development costs	5	495,959	1,983,842	3,967,685
Patents		117,623	60,988	49,141
		\$ 4,493,326	\$10,283,759	\$ 6,343,710
<b>Liabilities</b>				
<b>Current</b>				
Accounts payable and accrued liabilities		\$ 460,021	\$ 326,419	\$ 291,626
<b>Shareholders' Equity</b>				
Capital stock	6	22,413,077	22,188,077	12,377,755
Deficit		(18,379,772)	(12,230,737)	(6,325,671)
		4,033,305	9,957,340	6,052,084
		\$ 4,493,326	\$10,283,759	\$ 6,343,710

Approved by the Board Clifford Horwitz Director Jeff Berkow Director  
("Signed") ("Signed")

See accompanying notes.

# SAMSys Technologies Inc.

## Consolidated Statements of Earnings and Deficit

	Nine Months Ended		Years Ended		
	June 30, 2003 (unaudited)	June 30, 2002 (unaudited)	Sept. 30, 2002	Sept. 30, 2001	Sept. 30, 2000
<b>Revenue</b>	\$ 188,678	\$ 1,337,456	\$ 1,378,493	\$ 3,089,861	\$ -
<b>Cost of sales</b>	90,183	871,906	906,000	2,040,396	-
<b>Gross profit</b>	98,495	465,550	472,493	1,049,465	-
<b>Interest income</b>	80,951	34,963	84,863	47,869	47,693
<b>Expenses</b>					
General and administrative	1,642,834	1,355,515	1,621,565	1,110,056	570,318
Sales and marketing	567,319	257,775	607,584	326,585	85,220
Research and development	2,533,123	1,404,221	2,082,007	379,242	-
Amortization – product development costs	1,487,883	1,487,883	1,983,843	1,983,843	-
– other	97,322	95,117	134,319	108,773	39,533
	6,328,481	4,600,511	6,429,318	3,908,499	695,071
<b>Loss before income taxes</b>	(6,149,035)	(4,099,998)	(5,871,962)	(2,811,165)	(647,378)
<b>Income taxes</b>	-	-	33,104	6,433	-
<b>Loss for the period</b>	(6,149,035)	(4,099,998)	(5,905,066)	(2,817,598)	(647,378)
<b>Deficit at beginning of period</b>	(12,230,737)	(6,325,671)	(6,325,671)	(3,508,073)	(2,860,695)
<b>Deficit at end of period</b>	\$ (18,379,772)	\$ (10,425,669)	\$ (12,230,737)	\$ (6,325,671)	\$ (3,508,073)
<b>Basic and diluted loss per share</b>	\$ (0.21)	\$ (0.18)	\$ (0.25)	\$ (0.15)	\$ (0.04)
<b>Weighted average number of shares outstanding</b>	28,725,898	22,428,713	24,012,694	18,600,471	17,204,204

See accompanying notes.

# SAMSys Technologies Inc.

## Consolidated Statements of Cash Flows

	Nine Months Ended			Years Ended	
	June 30, 2003	June 30, 2002	Sept. 30,	Sept. 30,	Sept. 30,
	(unaudited)	(unaudited)	2002	2001	2000
<b>Cash flows from operating activities</b>					
Loss for the period	\$ (6,149,035)	\$ (4,099,998)	\$ (5,905,066)	\$ (2,817,598)	\$ (647,378)
Add items not affecting cash					
Amortization	1,585,205	1,583,000	2,118,162	2,092,616	39,533
Other items	-	-	250	-	-
	(4,563,830)	(2,516,998)	(3,786,654)	(724,982)	(607,845)
Changes in non-cash working capital items					
Accounts receivable	(4,874)	331,143	595,768	(240,391)	-
Prepays and sundry	(14,019)	(28,324)	(39,833)	(47,013)	2,674
Accounts payable and accrued liabilities	133,602	(108,981)	34,793	(276,700)	41,924
	(4,449,121)	(2,323,160)	(3,195,926)	(1,289,086)	(563,247)
<b>Cash flows from investing activities</b>					
Additions to patents	(98,269)	(13,738)	(43,700)	(33,607)	(1,305,329)
Additions to property, plant and equipment	(114,130)	(24,670)	(90,040)	(138,359)	(9,314)
Proceeds from disposal of assets	-	-	1,300	-	-
	(212,399)	(38,408)	(132,440)	(171,966)	(1,314,643)
<b>Cash flows from financing activity</b>					
Issuance of capital stock	225,000	9,810,073	9,810,072	1,036,700	1,975,237
<b>Increase (decrease) in cash during the period</b>	(4,436,520)	7,448,505	6,481,706	(424,352)	97,347
<b>Cash acquired in acquisition (Note 3)</b>	-	-	-	48,943	-
<b>Cash and cash equivalence at beginning of period</b>	7,225,780	744,074	744,074	1,119,483	1,022,136
<b>Cash and cash equivalence at end of period</b>	\$ 2,789,260	\$ 8,192,579	\$ 7,225,780	\$ 744,074	\$ 1,119,483

### Supplemental Disclosure

	2002	2001	2000
Cash paid for income taxes	\$ 42,895	\$ -	\$ -

See accompanying notes.

## 1. SIGNIFICANT ACCOUNTING POLICIES

### Consolidation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries, SAMSys Incorporated, Hamel Davidson Corporation, SAMSys (US) Inc. and Hamel Davidson International Inc., as well as the company's 50% interest in a Joint Venture.

### Cash and Cash Equivalents

Cash and cash equivalents consist of cash in the bank and highly liquid investments with maturities of three months or less at the time of purchase.

### Property, Plant and Equipment

Property, plant and equipment are recorded at cost and are amortized over their estimated useful lives at the following annual rates:

Office equipment	- 20%, declining balance basis
Computer equipment	- 30%, declining balance basis
Computer software	- straight-line over 24 months
Leasehold improvements	- straight-line over three years

### Goodwill

Goodwill represents the excess of the purchase price of acquired enterprises over the fair market values of the identifiable assets acquired and liabilities assumed.

Commencing October 1, 2002, the company has adopted the new accounting standards issued by the Canadian Institute of Chartered Accountants (CICA) on Goodwill and Other Intangible Assets. Under the new standard, goodwill is no longer amortized to earnings and is assessed for impairment on an annual basis. In addition to the annual impairment test, an impairment test is performed if an event occurs or circumstances arise that would reduce the fair value of goodwill below its carrying amount. Goodwill was tested for impairment on adoption of the new policy and the company determined there was no goodwill impairment amount on adoption.

### Product Development Costs

Research costs are charged to operations when incurred. Development costs are expensed in the year incurred unless they meet the deferral criteria under Canadian generally accepted accounting principles for deferral and amortization. The costs relating to the licensing and development of the company's proprietary technology were deferred in the past. With commencement of commercial production, these costs are being amortized over a three year period on a straight-line basis.

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

On an ongoing basis, management reviews the valuation and amortization of these deferred costs, including any events and circumstances which may have impaired their carrying value. If, in any year, the product is found to have insufficient market potential to recover the investment, any unamortized balance in respect of that product will be charged to operations.

#### **Investment Tax Credits**

Investment tax credits arising from qualifying scientific research and experimental development costs are recorded as a reduction of the product development costs when there is a reasonable assurance that the credits will be received. The company considers reasonable assurance to exist when the claims have been approved by Canada Customs and Revenue Agency.

#### **Patents**

The costs relating to patent fees are deferred and amortized over thirty-six months on a straight-line basis. Patents are recorded net of accumulated amortization of \$56,423 (2001- \$24,570).

#### **Share Issuance Costs**

Costs incurred in respect of raising capital are charged to capital stock as a reduction of the equity proceeds.

#### **Stock-based Compensation**

Effective October 1, 2002, the company adopted CICA Handbook Section 3870, Stock-based Compensation and Other Stock-based Payments which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services provided by employees and non-employees. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employee awards that are direct awards of stock that call for settlement in cash and other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. The new standard permits the company to continue its existing policy of recording no compensation cost on the grant of stock options to employees but to disclose on a pro forma basis net earnings and earnings per share had the company adopted the fair value method for accounting for options granted to employees. No restatement of prior periods will be required as a result of the adoption of the new standard.

#### **Future Income Taxes**

The company follows the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined based on temporary differences between financial reporting and tax bases of assets and liabilities, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future income tax assets and liabilities are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. Future income tax assets are recorded in the financial statements if realization is considered more likely than not.

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

**Foreign Currency**

Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at exchange rates in effect at the balance sheet date. Non-monetary assets and liabilities, and revenue and expenses are translated at the rate of exchange at each transaction date. Gains or losses on translation are included in operations.

**Use of Estimates**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the year. Actual results could differ from those estimates.

**Revenue Recognition**

Revenues from consulting and development work are recognized as the services are provided and collections are reasonably assured.

**Loss Per Share**

Basic loss per share is calculated based on the weighted-average number of shares outstanding. In addition, the treasury stock method is used to compute the dilutive effect of options, warrants and similar instruments. For the years ended September 30, 2002, 2001 and 2000, and for the nine-month periods ended June 30, 2003 and 2002, this calculation proved to be anti-dilutive.

**Financial Instruments**

Unless otherwise noted, the fair values of the company's financial instruments approximate their carrying value.

**2. RESTRICTED FUNDS**

Included in cash and cash equivalents is \$624,771 (September 30, 2002 - \$755,672) which can only be used to fund the Company's share of the funding requirements for a joint venture in which the Company has a 50% interest.

**3. ACQUISITION**

On November 13, 2000, the company acquired 100% of the issued and outstanding common shares of both Hamel Davidson Corporation of Richmond Hill, Ontario and Hamel Davidson International Inc. of Durham, North Carolina for \$426,392 including acquisition costs.

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

Details of the assets acquired and the consideration given are as follows:

**Assets Acquired:**

Assets	\$ 638,025
Liabilities	(318,028)
Goodwill	106,395
	\$ 426,392

**Consideration:**

Issuance of 150,000 common shares from treasury	\$ 420,000
Acquisition costs	6,392
	\$ 426,392

Cash acquired net of cash paid	\$ 48,943
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**4. PROPERTY, PLANT AND EQUIPMENT**

	Cost	Accumulated Amortization	June 30, 2003	Net Sept. 30, 2002	Sept. 30, 2001
<b>Office equipment</b>	\$ 335,417	\$ 137,981	\$ 197,436	\$ 157,339	\$ 123,762
<b>Computer equipment</b>	239,224	147,911	91,313	72,320	92,126
<b>Computer software</b>	3,640	3,186	454	1,820	626
<b>Leasehold improvements</b>	29,710	13,188	16,522	15,804	9,175
	\$ 607,991	\$ 302,266	\$ 305,725	\$ 247,283	\$ 225,689

**5. PRODUCT DEVELOPMENT COSTS**

	June 30, 2003	September 30, 2002	September 30, 2001
Balance, beginning of period	\$ 1,983,842	\$ 3,967,685	\$ 5,951,528
Less: Amortization	(1,487,883)	(1,983,843)	(1,983,843)
Balance, end of period	\$ 495,959	\$ 1,983,842	\$ 3,967,685

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

**6. SHARE CAPITAL**

Authorized  
 unlimited special shares  
 unlimited convertible special shares<sup>(v)</sup>  
 unlimited common shares

Issued

**Common shares**

	Number of Shares	Value
Balance, September 30, 1999	16,534,298	\$ 8,945,818
Shares issued in connection with the exercise of options	867,200	1,245,237
Shares issued in connection with exercise of 730,000 warrants <sup>(i)</sup>	730,000	730,000
Balance, September 30, 2000	18,131,498	\$ 10,921,055
Shares issued in connection with the exercise of options	20,000	24,200
Shares issued in connection with a private placement <sup>(ii)</sup>	375,000	1,012,500
Shares issued to acquire Hamel Davidson Corporation and Hamel Davidson International Inc. (Note 3)	150,000	420,000
Balance, September 30, 2001	18,676,498	\$ 12,377,755
Shares issued in connection with exercise of options	19,400	16,490
Shares issued in connection with a private placement <sup>(iii)</sup>	2,030,000	1,153,031
Shares issued in connection with a private placement <sup>(iv)</sup>	8,000,000	8,640,551
Balance, September 30, 2002	28,725,898	22,187,827
Shares issued in connection with exercise of warrants	300,000	225,000
Balance, June 30, 2003 (unaudited)	29,025,898	\$22,412,827

**Convertible special shares**

	Number of Shares	Value
Balance, September 30, 1999, 2000 and 2001	-	\$ -
Shares issued in connection with the private placement <sup>(v)</sup>	2,500,000	250
Balance, September 30, 2002	2,500,000	\$ 250
Balance, June 30, 2003 (unaudited)	2,500,000	\$ 250

Stated capital, September 30, 2002 \$ 22,188,077

Stated capital, June 30, 2003 (unaudited) \$ 22,413,077

(i) 730,000 common share units were issued and sold on a private placement basis pursuant to a subscription agreement dated September 30, 1999 at a price of \$0.75

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

per unit. Each unit is comprised of one common share and one warrant. Each warrant entitles the purchaser to acquire one common share at an exercise price of \$1.00 per share. On January 14, 2000 and September 6, 2000, 130,000 and 600,000 common shares, respectively were issued in connection with the exercise of all warrants for net proceeds of \$730,000.

- (ii) 375,000 common share units were issued and sold on a private placement basis on November 9, 2000 at a price of \$2.70 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the purchaser to acquire one common share at an exercise price of \$3.00 per common share for two years from the date the financing closes.
- (iii) 2,030,000 common share units were issued and sold on a private placement basis on January 21, 2002 at a price of \$0.60 per unit. Each unit is comprised of one common share and one common share purchase warrant. Each warrant entitles the purchaser to acquire one common share at an exercise price of \$0.75 per common share for two years from the date the financing closes. The company incurred share issuance costs of \$64,969 during this transaction.
- (iv) 8,000,000 common shares were issued and sold on a private placement basis on April 4, 2002 at a price of \$1.10 per share. The company incurred share issuance costs of \$159,448 during this transaction.
- (v) Issued in connection with the private placement on April 4, 2002 (Note 6(iv)). The convertible special shares are convertible into common shares on a one-for-one basis for a period of 90 days after delivery of certificate confirming that certain technical milestones are met. The company can redeem the special shares for \$0.0001 per share plus any dividend amount if either the technical milestones are not met, or if the technical milestones are met and the companies involved proceed with a 50/50 revenue sharing arrangement.

## 7. STOCK OPTIONS AND WARRANTS

### i) Stock Options

The company maintains a Stock Option Plan (the "Plan") for the benefit of directors, officers, employees and consultants. The maximum number of common shares reserved for issuance with respect to the Plan cannot exceed 5,700,000 (2001 - 3,000,000). The following summarizes the stock option activities:

	Number of Options	Weighted Average Exercise Price
Balance, September 30, 1999	1,471,667	\$ 1.32
Granted	947,500	6.25
Exercised	(867,200)	(1.44)
Balance, September 30, 2000	1,551,967	4.27
Granted	1,281,667	2.64
Exercised	(20,000)	(1.24)
Cancelled/expired	(206,667)	(1.67)
Balance, September 30, 2001	2,606,967	4.27

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

	Number of Options	Weighted Average Exercise Price
Granted	1,430,300	0.93
Exercised	(19,400)	(0.85)
Cancelled/expired	(88,400)	(1.33)
Balance, September 30, 2002	3,929,467	2.76
Granted	1,275,000	0.72
Cancelled/expired	(284,167)	(1.89)
Balance, June 30, 2003	4,920,300	\$ 2.76
Exercisable, June 30, 2003	3,070,299	

The company had the following options outstanding at June 30, 2003 (unaudited):

Number of Options	Price	Expiry Date
100,000	\$ 0.49	August 16, 2003
170,000	\$ 1.21	July 18, 2004
855,000	\$ 6.70	March 25, 2005
50,000	\$ 2.35	June 26, 2005
15,000	\$ 2.40	July 25, 2005
280,000	\$ 2.65	November 19, 2005
100,000	\$ 1.72	December 21, 2005
645,000	\$ 2.88	March 25, 2006
40,000	\$ 2.35	May 1, 2006
130,000	\$ 0.95	November 25, 2006
960,300	\$ 0.95	April 3, 2007
300,000	\$ 0.84	May 5, 2007
340,000	\$ 0.73	December 9, 2007
935,000	\$ 0.72	March 31, 2008
4,920,300		

ii) **Warrants**

The company had the following warrants outstanding at June 30, 2003 (unaudited).

Number of Warrants	Exercise Price Terms	Expiry Date
1,730,000	\$ 0.75	January 21, 2004

**8. STOCK BASED COMPENSATION**

The company accounts for its stock options granted to employees, officers and directors using the intrinsic value method. Section 3870 requires that companies not using the fair value method to measure the value of stock options disclose pro forma net earnings and earnings per share information as if the company had accounted for employee stock options under the fair value method. The company has elected to disclose pro forma loss and pro forma loss per share as if the company had accounted for its options under the fair value method.

SAMSYS TECHNOLOGIES INC.  
Notes to Consolidated Financial Statements

A summary of the pro forma impact on the statement of operations is presented in the table below:

	<b>June 30, 2003</b>
Loss for the period	\$ 6,149,035
Compensation expense related to the fair value of stock options	\$ 63,050
<b>Pro forma loss for the period</b>	<b>\$ 6,212,085</b>
<b>Pro forma loss per share</b>	<b>\$ 0.22</b>

The fair value of each option granted in the nine months ended June 30, 2003 has been estimated at the date of grant or the date when it became measurable using the Black-Scholes option pricing model with the following assumptions: (i) dividend yield of 0%; (ii) expected volatility of 122%; (iii) risk free interest rate of 4.4%; and (iv) expected life of three years. The company has assumed no forfeiture rate as adjustments for actual forfeitures are made in the year they occur. The weighted-average grant date fair values of options issued in the nine months ended June 30, 2003 were \$0.445.

**9. INCOME TAXES**

i) **Income Tax Expense**

The following table reconciles income taxes calculated at combined Canadian federal/provincial tax rates with the income tax expense in the consolidated financial statements:

	<b>2002</b>	<b>2001</b>	<b>2000</b>
Loss before income taxes	\$ (5,871,962)	\$ (2,811,165)	\$ (647,378)
Statutory rate	39.7%	42.5%	44%
Expected income tax recovery	\$ (2,331,169)	\$ (1,194,745)	\$ (284,000)
Property, plant and equipment and intangibles	788,678	833,572	4,200
Amounts not deductible for tax	25,112	4,266	3,600
Unutilized tax losses	1,514,634	388,959	277,000
Other	35,845	(25,652)	-
<b>Income tax expense</b>	<b>\$ 33,100</b>	<b>\$ 6,400</b>	<b>\$ -</b>

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ii) **Future Income Taxes**

The temporary differences that give rise to future income tax assets and future income tax liabilities are presented below:

	2002	2001	2000
Amounts related to tax loss and credit carry forwards	\$ 2,697,100	\$ 2,021,100	\$ 1,467,381
Property, plant and equipment	30,800	10,000	6,162
Net future tax asset	2,727,900	2,031,100	1,473,543
Valuation allowance	2,727,900	2,031,100	1,473,543
	\$ -	\$ -	\$ -

iii) **Loss and Tax Credit Carryforwards**

At September 30, 2002 the company had undeducted scientific research and experimental development costs of approximately \$528,068, capital losses of \$400,000 and non-capital losses of approximately \$7,669,700 available to apply against future taxable income. The capital losses will carry forward indefinitely. If not utilized, the non-capital losses will expire as follows:

2003	\$ 235,700
2004	938,100
2005	577,200
2006	585,700
2007	618,200
2008	899,600
2009	3,815,200
	\$ 7,669,700

The potential tax benefit relating to these losses has not been reflected in these financial statements.

**10. COMMITMENTS**

The company has the following lease commitments for premises and certain office equipment:

2003	\$ 195,290
2004	179,164
2005	168,045
2006	170,658
2007 and thereafter	240,012
	\$ 953,169

## 11. FINANCIAL INSTRUMENTS

### i) Concentration of Credit Risk and Economic Dependence

At September 30, 2002 one customer represented 28% (2001 - 83%) of the year-end accounts receivable balance and 88% (2001 - 95%) of the company's sales during the year.

### ii) Currency Risk

The Company is exposed to foreign exchange risk as a portion of its net revenues is earned in U.S. dollars, and it has assets and liabilities that will be settled in U.S. dollars and British pounds. Foreign exchange risk arises due to fluctuations in foreign currency rates, which could affect the Company's financial results. The Company does not use any derivative instruments to reduce its exposure to this foreign exchange risk. At September 30, 2002, approximately 1% of cash and cash equivalents, 85% of accounts receivable, and 31% of accounts payable and accrued liabilities are denominated in U.S. dollars (2001 - 42%, 96% and 63% respectively). Approximately 38% (2001 - NIL) of accounts payable is denominated in British pounds at September 30, 2000.

## 12. LITIGATION

On February 1, 1999, a statement of claim was filed against the company by one of the trade creditors ("Plaintiff") of Aegis Manufacturing Corporation ("Aegis"), a former subsidiary of the company. The action alleges damages for breach of contract in the amount of \$3,000,000.

The Plaintiff alleges that the company undertook directly to discharge the trade obligations owed by Aegis to the Plaintiff. The company does not believe that it has breached any agreement or misrepresented itself to the Plaintiff and rejects the Plaintiff's claims that they are owed any money. The company believes the claim is without merit.

## 13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's financial statement presentation.

## 14. SUBSEQUENT EVENTS

### i) Special Warrant Issue

On October 15, 2003 the company closed a Private Placement of 12,000,000 Special Warrants for gross proceeds of \$13,200,000.

The Special Warrants were issued at a price of \$1.10 per Special Warrant. Upon exercise, each Special Warrant will entitle the holder thereof to acquire, for no additional consideration, one Common Share and one-half of one Common Share purchase warrant until 5:00 p.m. (Toronto time) (the "Time of Expiry") on the earlier of: (a) the date which is

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five business days following the issuance of a receipt for a final Prospectus qualifying the issuance by the company of the Common Shares and warrants by the last of the securities regulatory authorities in the jurisdictions in which the Prospectus is filed; (b) October 15, 2004; and (c) the date on which, in the opinion of the company's counsel, the Common Shares and warrants issuable on the exercise of Special Warrants would no longer be subject to resale restrictions under applicable securities laws. SAMSys will use its best efforts to obtain a receipt for the final Prospectus in each of the jurisdictions in which it is filed on or before January 13, 2004. In the event that a receipt for the final Prospectus is not obtained by such date, each Special Warrant will be exercisable for 1.08 Common Shares and 0.54 Common Share purchase warrants until the Time of Expiry.

Each whole Common Share purchase warrant will be exercisable to purchase one Common Share at a price \$1.50 until October 13, 2006.

ii) **Settlement of Litigation**

The company reached an agreement with respect to the litigation disclosed in Note 12. Pursuant to the agreement, the company paid \$130,000 to settle the claim. This amount has not been recorded in these financial statements.

**CERTIFICATE OF THE COMPANY**

Dated: December 1, 2003

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario), Part 9 of the *Securities Act* (British Columbia) and Part 9 of the *Securities Act* (Alberta) and the regulations thereunder. This prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

(signed) CLIFFORD HORWITZ

Chairman and Chief Executive Officer

(signed) GEORGE KYPREOS

Vice President, Chief Financial Officer and Secretary

On behalf of the Board of Directors

(signed) DAVID ARMSTRONG

Director

(signed) JEFF BERKOW

Director

## CERTIFICATE OF THE AGENTS

Dated: December 1, 2003

To the best of our knowledge, information and belief, the foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this prospectus as required by Part XV of the *Securities Act* (Ontario), Part 9 of the *Securities Act* (British Columbia) and Part 9 of the *Securities Act* (Alberta) and the regulations thereunder. To our knowledge, this prospectus, as required by the *Securities Act* (Quebec) and the regulations thereunder, does not contain any misrepresentation that is likely to affect the value or the market price of the securities to be distributed.

FIRST ASSOCIATES INVESTMENTS INC.

By: (signed) Philip Benson

CLARUS SECURITIES INC.

By: (signed) James E. Lorimer