This prospectus constitutes a public offering of these securities only in those jurisdictions where they may be lawfully offered for sale and therein only by persons permitted to sell such securities. No securities commission or similar authority in Canada has in any way passed upon the merits of the securities offered hereunder and any representation to the contrary is an offence. These securities 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. See "Details of the Offering".

New Issue **August 2, 2000**

Telepanel

TELEPANEL SYSTEMS INC.

$5,000,000

1,515,152 Common Shares and 757,576 Purchase Warrants to be issued upon the exercise of 1,515,152 Special Warrants

The 1,515,152 common shares ("Common Shares") and 757,576 purchase warrants ("Purchase Warrants") of Telepanel Systems Inc. ("Telepanel" or the "Company") to be distributed hereunder will be issued upon the exercise of 1,515,152 special warrants ("Special Warrants") issued by the Company at a price of $3.30 per Special Warrant (the "Issue Price") pursuant to an agency agreement (the "Agency Agreement") dated April 5, 2000 between Canaccord Capital Corporation, Paradigm Capital Inc. (collectively, the "Agents") and the Company. The offering price of the Special Warrants was determined by negotiation between the Company and the Agents.

Each Special Warrant entitles the holder to receive, upon exercise and without additional payment, one Common Share and one-half of one Purchase Warrant, subject to adjustment, at any time after April 5, 2000 and prior to 5:00 p.m. (Toronto time) on the first to occur (the "Expiry Time") of (i) the fifth business day after the date (the "Receipt Condition") on which a receipt has been issued by the Ontario Securities Commission (the "OSC") for this final prospectus; and (ii) April 5, 2001. Any Special Warrants not exercised on or before the Expiry Time will be exercised by the Company without further action by the holders. Each whole Purchase Warrant entitles the holder to purchase one Common Share for $4.00, subject to adjustment, at any time on or before April 5, 2002.

Certificates for the Common Shares and the Purchase Warrants will be available for delivery upon the exercise or deemed exercise of the Special Warrants.

The Special Warrants were issued by the Company on April 5, 2000 (the "Closing Date") at the Issue Price for aggregate gross proceeds of $5,000,000.

	Price	Agents' Commission(1)	Net Proceeds (2)
Per Special Warrant	$3.30	$0.231	$3.069
Total	$5,000,000	$350,000	$4,650,000

Notes:

1. The Agents received a commission equal to 7% of the gross proceeds of this offering as consideration for services provided in connection with this offering. In addition, on the Closing Date the Company granted to the Agents 151,515 non-assignable special broker warrants ("Special Broker Warrants") to acquire at any time on or before the Expiry Time, for no additional consideration, 151,515 Broker Warrants ("Broker Warrants"). Each Broker Warrant entitles the holder to purchase one Common Share and one-half of one common share purchase warrant ("Broker Purchase Warrant") at an exercise price of $4.00 at any time on or before 5:00 p.m. (Toronto time) on April 5, 2002. Each whole Broker Purchase Warrant entitles the holder to purchase one Common Share for $4.00, subject to adjustment, on or before 5:00 p.m. (Toronto time) on April 5, 2002. This prospectus also qualifies the distribution of 75,758 Broker Warrants to the Agents.
2. Before deducting expenses of this offering, including the preparation of this prospectus, estimated to be $150,000, which will be paid by the Company.

The Common Shares are listed for trading on The Toronto Stock Exchange ("TSE"). There is no market through which the Purchase Warrants may be sold. On April 4, 2000, the day prior to the announcement of the Special Warrant financing, the closing quotation for the Common Shares on the TSE was $3.25 per share.

There are certain risks associated with the Special Warrants, and an investment in the Special Warrants must be regarded as highly speculative and subject to significant risks due to the nature of the Company's business. An investment in the Special Warrants should be regarded as suitable for purchasers who are aware of such risks and who have the ability and willingness to accept the risk of total loss of their invested capital. Investors should consider the risk factors and considerations described under "Risk Factors" in assessing the investment merits of the Special Warrants.

The Issue Price, after giving effect to this issue, exceeds the net tangible book value per Common Share as at January 31, 2000 by $3.58 per share representing 100% of the Issue Price of the Special Warrants. See "Dilution".

Certain legal matters relating to this offering will be passed upon on behalf of the Company by Torys and on behalf of the Agents by Cassels Brock & Blackwell LLP.

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All dollar amounts in this prospectus are stated in Canadian dollars, unless otherwise noted. The trademark "Telepanel" is a trademark of the Company. All other trademarks used throughout this prospectus are the property of their respective owners.

PROSPECTUS SUMMARY

The following information is a summary only and is qualified in its entirety by the more detailed information appearing elsewhere in this prospectus.

The Company

Telepanel develops, manufactures and supplies products used in the emerging electronic shelf label ("ESL") industry. Telepanel has developed an ESL system for use in the retail industry and, in particular, the supermarket sector. Telepanel's ESL system is capable of automatically updating price and other promotional information shown on a store shelf through the use of a proprietary, wireless system of two-way radio frequency communications technology which links a store's electronic checkout scanner system to liquid crystal display ("LCD") modules mounted in front of a product on a store's existing shelf edge.

The Offering

Offering: 1,515,152 Common Shares and 757,576 Purchase Warrants issuable on the exercise of 1,515,152 previously issued Special Warrants.

Special Warrants: The Special Warrants were issued by the Company on April 5, 2000 at a price of $3.30 per Special Warrant pursuant to the Agency Agreement. 1,469,652 Special Warrants were issued to The Vengrowth Investment Fund, Inc. and 45,500 Special Warrants were issued to BCM Arbitrage Fund. Each Special Warrant entitles the holder thereof to receive, upon exercise and without additional payment, one Common Share and one-half of one Purchase Warrant, subject to adjustment, at any time, after April 5, 2000 and prior to the Expiry Time. See "Details of the Offering". This prospectus also qualifies the distribution of 75,758 Broker Warrants issued to the Agents.

Purchase Warrants: Each whole Purchase Warrant entitles the holder thereof, upon exercise, to purchase one Common Share, subject to adjustment, for $4.00 on or before April 5, 2002.

Use of Proceeds: The net proceeds to the Company from the sale of the Special Warrants, after deducting the estimated expenses of the issue, are estimated to be $4,500,000. The Company expects to use the net proceeds from this offering for the following purposes: for general corporate purposes, including working capital (24%); to fund the acquisition of leasehold improvements, fixtures and equipment used in the operation of the business (5%); to engage in research and development activities in connection with new products and to enhance its existing products (37%); to support IBM's sales and marketing efforts (10%); and to enhance its ability to manufacture the anticipated volumes (24%). To date, the Company has spent approximately $1,500,000 of the net proceeds for working capital purposes and in research and development. See "Use of Proceeds".

Delivery of Certificates: Certificates for the Common Shares will be delivered upon exercise or deemed exercise of the Special Warrants.

Risk Factors:	There are certain risk factors inherent in an investment in the Common Shares that investors should consider, including: the Company's reliance on a single product in an emerging market; historical and anticipated losses and negative cash flow; substantial leverage and debt service requirements; dependence on IBM as a distribution channel; acceptance of wireless technology in the marketplace; the ability to meet existing or new competitive threats; regulatory approval of ESL by different jurisdictions; protection of the Company's intellectual property; dependence on suppliers and manufacturers; dependence on significant customers; the ability of the Company to manage its growth; risks associated with international sales; dependence on key personnel; possible volatility of the price of the Company's Common Shares; and the immediate dilution that will result from the offering. See "Risk Factors".
Dividend Policy:	The Company intends to retain future earnings to finance the development of its business and, accordingly, does not anticipate paying dividends on its Common Shares in the foreseeable future.

CORPORATE INFORMATION

The Company was incorporated under the laws of Canada on June 9, 1982. On October 29, 1986, the Company amalgamated with Westsun Petroleums & Minerals Ltd. On July 10, 1989 the articles of the Company were amended to change the name of the Company to its present name. On December 10, 1997, the articles of the Company were amended to change the share capital structure. The registered and principal office of the Company is located at 245 Riviera Drive, Markham, Ontario, L3R 5J9 and its telephone number is (905) 477-7877. The Company's website address is www.telepanelsystems.com.

In August 1992, Telepanel incorporated a wholly-owned operating subsidiary named Telepanel Systems International Inc. under the laws of Barbados. On January 3, 1994, Telepanel Systems International Inc. changed its name to Modtronix Manufacturing Inc. On November 6, 1995 Modtronix Manufacturing Inc. changed its name to Telepanel Products Inc. ("TPI"). TPI is not currently an operating company.

In September 1996, Telepanel formed Telepanel Europe S.A., a French limited company (société anonyme), in conjunction with a group of investors lead by Apax partners & Cie in which Telepanel held 42% of the shares. In September 1999, Telepanel purchased all of the assets of Telepanel S.A. for a purchase price of approximately $225,000 and incorporated a 100% owned subsidiary Telepanel S.A.R.L., through which it conducts its European business.

BUSINESS OF THE COMPANY

General

Telepanel develops, manufactures and supplies ESL systems for use in the retail industry, in particular, the supermarket sector. ESL systems assist retailers to reduce labour costs, improve the accuracy between the price displayed on the shelf and the price charged at the checkout, increase the speed and ease of effecting price changes, more effectively communicate promotional information and improve shelf, inventory and merchandising management with a view to reducing operating costs, increasing margins, customer satisfaction and sales in the highly competitive supermarket sector.

The Telepanel System enables retailers to change product pricing and certain other information displayed at the store shelf, without the traditional labour intensive replacement of adhesive paper labels. The information displayed on electronic LCD modules attached to store shelf edges is changed through the use of a central computer and a unique radio frequency communications technology that links information on the retailer's store shelves to that in its electronic checkout scanning system.

Sales Status

Approximately 2,000,000 Telepanel wireless display modules are presently installed and operating throughout the United States, Canada and in Europe. Telepanel installations are at such premier supermarkets and warehouse chains as Adam's Super Food Stores, A & P, Stop & Shop, Loblaws, Big Y, Reasor's, Wakefern, Grand Union, Shaw's, Brown's, Doll's, Stew Leonard's, Champion, Leclerc, Intermarche, SPAR and Super U at Universal Studios, Hollywood.

On July 27, 2000, the Company announced orders from 2 new customers (Coop Atlantique and IBM). These orders are for initial installations.

Retail Industry Overview

The Company's initial target market for the Telepanel System consists of supermarket retailers. Supermarkets stock a large number of stockkeeping units ("SKUs") and operate in a highly competitive market in which it is necessary to maintain acceptable margins while offering competitive prices. The supermarket sector has one of the lowest profit margins in the retailing industry (necessitating strict cost controls) and is characterized by frequent price changes necessitating access to a prompt, accurate and cost effective method for recording price changes and high unit sales (necessitating effective shelf, inventory and merchandise management). In addition, supermarkets have already employed and are aware of the benefits of electronic checkout scanning systems in providing competitive advantages. Future target markets include any retail sector where large numbers of SKUs are stocked, including convenience stores, drug stores and other specialty retail outlets, such as automotive and home improvement centres, which have recently begun to use electronic checkout scanning systems.

A typical supermarket stocks over 20,000 SKUs. The majority of these products are available at competitive stores and the manufacturers, distributors and retailers run frequent promotions with respect to many of these items. As a result, depending on factors such as competition and promotional programs, a typical supermarket store will change several hundred to a few thousand prices each week.

Traditionally, supermarkets displayed product prices by attaching adhesive labels to the shelf adjacent to each product and/or affixing labels to each product. Price changes were effected manually by employees. If the price labels are attached to the shelf or product, those labels are physically removed and replaced with a revised label. If an electronic checkout scanning system has been installed, label changes must be coordinated with prices recorded in that system. This is frequently a time-consuming and labour-intensive exercise.

In addition to the fact that pricing accuracy is important for consumer satisfaction, certain jurisdictions in North America have introduced regulations requiring accurate unit and item pricing which, if violated, may result in fines and other penalties being levied against the supermarket. Supermarkets also often use the information included on a shelf label to re-order goods that are sold. Lost or misplaced labels contribute to over-stocking, failure to restock and restocking delays.

The Company has designed the Telepanel System to address certain of the challenges facing the supermarket sector of the retail industry.

Price Changes. The Telepanel System allows retailers to implement price changes from the store's central computer, resulting in significant labour savings when compared with manual price changing. In addition, prices can be changed much more quickly, leading to increased margins as prices may be changed promptly in response to special promotions or changes in wholesale prices.

Pricing Accuracy. The Telepanel System electronically links a store's electronic checkout scanning system and its ESL system, virtually eliminating discrepancies between prices displayed on the store shelves and prices charged at checkout. This assurance of pricing integrity permits retailers to reduce or eliminate manual pricing audits and fines paid to governmental entities for pricing inaccuracies. In addition, pricing accuracy can result in fewer price checks and errors at the checkout, providing faster checkout times, improved cashier productivity and increased customer satisfaction.

Promotional Efficiency. The Telepanel System is designed to increase the speed and accuracy of replacing product displays and promotional material by causing the display module to display a particular symbol or other message on products that require the addition or removal of additional signage at the self edge. This is intended to eliminate the time consuming and potentially inaccurate process of checking promotional items by walking through the store and looking for products that require placement or removal of displays or promotional material.

Replenishment/Inventory Management. Supermarkets lose sales (and their corresponding margins) when products are inadvertently missing from the prescribed shelf set, often due to lost or damaged paper labels. In addition, damaged and hand written paper labels result in increased order entry errors, which increase both out of stocks (resulting in lost sales) and labour costs associated with the product ordering process. The Telepanel System allows authorized store personnel to change ESL's from a price display to a sold out message. The Telepanel System facilitates simple notation of out of stocks during normal business stocking procedures, with the system automatically generating an out of stock report that can be resolved by store management. In addition, the display of an out of stock message, rather than removal of the paper label, holds the shelf placement for the missing product, increasing the integrity of the store product layout plan.

Shelf Set Management. Typically supermarkets carefully develop store product layout plans for the management of products and product categories in the stores, on the belief that products perform best in the aggregate when arranged on shelves as prescribed by the store product layout plan. When paper labels are lost, damaged or moved, deviations from the layout plan occur, resulting in a higher incidence of out of stock items, loss of sales of potentially high margin items, continued stocking of discontinued or unauthorized products and increased time and labour associated with new cut-ins to a shelf set that differ from the layout plan.

The Telepanel System is designed to maintain shelf sets more easily because the display modules stay locked in place, whereas paper tags may be easily shifted. In addition, the display module is designed to display other product information, such as which shelf, relative shelf position and number of facings for simple, more accurate and less paper intensive layout plan implementation or changes. These features are intended to reduce labour associated with shelf set management and stocking and to increase layout plan compliance and monitoring.

Supermarkets have in the past adopted technologies designed to reduce labour and other costs, enhance customer service and improve operations. For example, electronic checkout scanning systems were first introduced in the supermarket sector and have achieved the greatest level of market penetration in that sector. Electronic checkout scanning systems enable retailers to reduce labour costs, improve pricing integrity and increase efficiency while also providing additional applications such as computerized inventory management. The Company believes that supermarket retailers will adopt technological innovations such as ESL systems as a result of their experience with electronic checkout scanning systems. An integrated ESL system negates the need for labour-intensive updating of shelf prices to correspond with scanning system prices and further increases efficiencies.

The Telepanel System

The Telepanel system typically displays both the product price and unit price (i.e. cost per pound) on an LCD module mounted on the store shelf edge in front of the product. The Telepanel display modules may also display promotional messages (e.g. “SALE” or “SAVE 20 cents”). Radio transceivers link the display modules to the same database that operates the store’s electronic checkout scanner system. Pricing information is read by Telepanel software and is transmitted to radio transceivers, which then transmit information to the display modules. This provides an accurate and convenient display of information on store shelves.

The Telepanel System is comprised of a number of hardware and software components. The part of the Telepanel System seen and used by the consumer is the liquid crystal display module, which is mounted on the shelf edge in front of each product. Each display module is capable of digital, two-way radio communication with the base station and control computer. The two-way communications capability allows a retailer to confirm that the relevant display module has received the price change or other information and that each display module is operational. The modules are battery powered, with a typical battery life of at least seven years, and attach to the existing shelf edge. North American supermarkets typically install between 7,000 and 15,000 display modules. The computer software used by the Telepanel System operates on a micro-computer or equivalent, controls the transmission of information to the display modules and provides a link to the in-store point-of-sale computer (which controls the store’s electronic checkout scanner system) and the store’s database.

The Company generates revenue from the sale of hardware and software with the initial installation of the Telepanel System. Recurring revenue is derived from the sale of additional display modules used to expand the use of ESL’s in the store and to replenish existing supply, from software fees and from customer service fees, as required.

The Telepanel System is capable of communicating with electronic checkout scanner systems sold by IBM, Fujitsu-ICL Inc. and NCR Corporation, which, collectively, hold a substantial majority of the electronic checkout scanner market in North America. Telepanel implements communication links with other manufacturers’ equipment as market conditions require.

Telepanel has also developed display modules that fulfil European price display requirements and provide a unique alternate currency price display capability for which patent applications have been filed in France, Germany, Italy, Spain and the United Kingdom.

Marketing Strategy

Telepanel has focused its marketing strategy for the Telepanel System on that segment of the retail industry that has computerized its POS system by installing barcode scanners at the checkout counter.

Since September 1992, Telepanel (including TPI) has had a marketing arrangement with IBM, one of the largest suppliers of POS and other in-store systems to the retail sector. On January 11, 2000, Telepanel and IBM entered into an exclusive four-year, renewable, worldwide remarketing agreement under which IBM will sell Telepanel ESL modules. Pursuant to this agreement, IBM has provided Telepanel with development funding of $1.6 million to further develop the Telepanel System and technology. Through IBM's worldwide distribution channels, Telepanel has obtained access to the supermarket chain store segment of the supermarket industry in North America and Europe without incurring the cost of developing its own sales force and service network. Telepanel has also positioned itself with a group of wholesalers and other suppliers to sell directly to the independent supermarket retailer market. The agreement also allows Telepanel's existing remarketers, Fleming, SuperValu, Bozzuto's and Riva to work directly with Telepanel to continue to meet the needs of their customers.

Having installed the Telepanel System in 134 supermarket stores worldwide, of which 110 are in the United States, 14 are in Canada and 10 are in Europe, Telepanel believes it has the largest installed customer base in the ESL industry. Telepanel's ESL systems have been installed and in continuous in-store operation for as long as seven years, which Telepanel believes give it longer in-store operating experience with ESL systems than any of its competitors. As a result of, among other things, the robust design of its display modules, the fact that it is a wireless system and the exceptionally long life of the batteries which power Telepanel's modules (currently at least seven years), there are minimal maintenance costs associated with the use of the Telepanel System by a retailer.

The European market represents a significant potential market for Telepanel. Food stores in Western Europe have electronic checkout scanner systems which are comparable to their counterparts in the United States and Canada. As in the United States and Canada, the majority of these outlets are owned by a limited number of operators, many of whom have United States operations.

Telepanel has developed a display module that fulfils European price display requirements and provides a unique alternate currency price display capability for which a patent application has been filed in several major European countries. This alternate currency price display capability is particularly useful in areas of high levels of international traffic, such as border regions.

Research and Development

Since its incorporation, Telepanel has invested significant resources in developing the Telepanel System. With the research and development necessary to create the Telepanel System and have it deliver a commercially acceptable standard of performance, Telepanel anticipates that it will focus its research and development efforts on refining and enhancing the Telepanel System, with a strong focus on further reducing product cost. IBM's investment of $1.6 million pursuant to its worldwide remarketing agreement with the Company and the proceeds of this offering will enable Telepanel to further develop its offerings and technologies.

Through its research and development efforts, Telepanel has developed a low power, very low frequency, radio communications technology that has been approved by the United States Federal Communications Commission as being exempt from any site licensing requirements. In addition, the Telepanel System has received both Underwriters Laboratories and Canadian Standards Association certification in the United States and Canada, respectively. The Telepanel System has also been approved by the equivalent of the Federal Communications Commission in Europe.

Telepanel's new proprietary Millennium *Plus* technology is an advanced wireless, high bandwidth radio frequency communications technique that makes use of unlicensed communications bands in North America and Europe. It enables low cost, reliable, high throughput communication to thousands of wireless ESL modules within each customer space.

Telepanel has developed different types of display modules to suit particular customer requirements. The "9410" is the largest of these display modules and was designed for general supermarket applications. The "5410" is narrower than the "9410" and has been designed for narrow product facings, such as those found in drug stores or the spice section of a supermarket. It is a smaller, low cost display module that has all of the functionality of the "9410" and is suitable for use in most self-service retail environments. Telepanel has also designed an "9420" and a "5420" display module to meet the special needs of Connecticut retailers. The "9620" display module was developed for Europe and is capable of displaying package and unit prices in a variety of European currencies and formats, including the European common currency. The "9620" makes alternate currency equivalent price display available to the shopper at the touch of a button. This feature is useful in areas of high international traffic, such as border regions. This feature will also be very useful during the conversion to the Euro in 2002. The "9620" technology will enable supermarkets to update their prices for foreign exchange rate fluctuations at electronic speed and minimal cost. Patent applications have been filed in several major European countries to cover these and certain other unique attributes of the "9620" display module.

Manufacturing and Component Supply

All components and materials for the radio transceiver, the minibase and other related components of the Telepanel System are available from North American suppliers. This equipment is currently integrated and/or assembled at Telepanel's facilities in Markham, Ontario. Key components of the display modules are manufactured to Telepanel's specifications by various suppliers in North America and the Far East. The display modules are currently assembled in the Far East. The communications chip is Telepanel's proprietary design and is manufactured in California. While unforeseen shortages of components may arise in the future, Telepanel has not experienced significant interruptions or delays in the manufacture or assembly of the Telepanel System in the past and management believes that all components of the Telepanel System could be purchased from or manufactured by a number of manufacturers, and that Telepanel could replace any of its suppliers, manufacturers or assemblers, on similar terms as to price, quality and delivery, within a short period of time and without material adverse impact on Telepanel's business.

Product cost reduction continues to be a priority of Telepanel. Telepanel has made significant reductions in manufacturing costs since the Telepanel System was first developed and marketed in 1987. Telepanel's product cost reductions are attributable to Telepanel's ongoing manufacturing cost reduction strategy, which includes direct global sourcing of components, the use of subcontract assembly services and the use of design engineering to develop and identify less expensive components and reduce assembly complexity. An important synergy of Telepanel's cost reduction strategy is that the relationships established with suppliers and assemblers assist with further cost reductions and product developments.

Competition

The emerging ESL systems market is characterized by rapid technological advances and evolving industry standards, and the Company may be subject to a high degree of potential competition from both existing and new companies that may attempt to develop competing ESL systems. ESL systems are also subject to competition from suppliers of traditional paper labelling methods, as well as providers of hand-held portable data terminals.

The Company believes that competition will generally expand the overall market for ESL systems as a greater number of participants increases awareness of the benefits of ESL systems.

Telepanel's primary competitors are NCR Corporation ("NCR"), Electronic Retailing Systems International, Inc. ("ERS") and Pricer Inc., an affiliate of Pricer AB ("Pricer"). NCR and ERS have both developed competing systems based on spread spectrum microwave technology. Pricer has developed a competing ESL system based on wireless, infra-red technology. Telepanel understands that Eldat Communications Ltd. of Israel has also developed a system based on wireless infra-red technology and Sitour Electronic Systems of France have developed a competing low frequency system. As compared to the infra-red ESL systems, the Company believes the Telepanel System has significant operational advantages leading to lower product and maintenance costs.

Patents and Trademarks

Telepanel has pursued an intellectual property rights strategy to protect its product developments. Telepanel's policy is to file patent applications to protect technology, inventions and improvements that are important to the development of its business and to seek copyright protection with respect to its software. Telepanel also relies upon trade secrets, know-how, continuing technological innovations and licensing opportunities to develop and maintain its competitive position. Telepanel obtains non-disclosure agreements from its employees, customers, consultants and strategic partners. However, there can be no assurance that those measures and agreements will be sufficient to maintain Telepanel's competitive position or protect its proprietary information.

Patents for Telepanel's alphanumeric display module, including the unit price button, have been issued and are held by Telepanel in the United States, Canada, the United Kingdom, France, Italy and Australia, and expire, in each case, in 2004 or 2005. Patents on Telepanel's shelf lock mechanism have been granted to Telepanel in the United States, to expire in 2007. Patents on Telepanel's radio frequency communications system have been granted to Telepanel in the United States, Canada, the United Kingdom, France, and Italy and expire in 2006, 2009, 2007, 2007, and 2007, respectively. A patent for the same invention is pending in Germany. Patent applications have been filed in France, Germany, Italy, Spain and the United Kingdom for the European display module. All such patents are material to Telepanel to the extent they protect Telepanel's technology from being copied, but management of Telepanel does not believe the loss of any one of these patents would result in materially adverse consequences to Telepanel.

Notwithstanding the foregoing, there can be no assurance that patents issued to Telepanel will be held valid and enforceable if challenged or that a competitor will not be able to circumvent an issued patent by adoption of a competitive though non-infringing product or process.

Since April 1984, Telepanel has had an exclusive license under patents that relate to electronic shelf pricing and embody the concept of electronic shelf labelling. These patents, which are owned by Sundelin Associates, a partnership, have been issued in the United States, Canada, the United Kingdom, Germany, Japan and Australia and are licensed to Telepanel pursuant to a license agreement with Sundelin dated April 30, 1984, as subsequently amended. The Sundelin patents expired in Canada on April 29, 1997 and expired in all other jurisdictions between January 1993 and January 1997. With the expiry of the Sundelin patents and the possible entrance into the market of large companies, Telepanel expects additional competitors to enter the market.

Telepanel has not made a comprehensive search for potentially infringed United States, Canadian or foreign patents and therefore may be unaware of other patents that pose infringement risks. Although no claims have been made against Telepanel with respect to the infringement of the proprietary rights of others and Telepanel believes that its products and technology do not infringe the proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future or that claims of this sort will not be successful. Furthermore, Telepanel could incur substantial costs in defending itself against patent infringement claims brought by others or in prosecuting suits against others that it asserts to be infringing patents owned by it.

It must also be noted that no assurance can be given that others will not obtain patents that Telepanel or its subsidiaries would need to license, that if a license is required that it would be available on reasonable terms or, if a license is not obtained, that Telepanel will be able to circumvent, through a reasonable investment of time and expense, an outside patent. Whether Telepanel obtains a license will depend on the terms offered, the degree of risk of infringement, the vulnerability of the patent to invalidation and the ease of inventing around the patent.

Because of technological changes in the industry, there can be no assurance that the introduction of new products or the development of other technologies by other entities will not render Telepanel's products and processes obsolete or unmarketable. Moreover, increased market penetration and customer acceptance of Telepanel's products will depend upon Telepanel's ability to maintain a technically competent product development, marketing and technical support force and its ability to adapt to technological changes in the industry.

The trademark "Telepanel" has been registered in the United States, Canada, the United Kingdom and France.

Facilities

Telepanel's place of business is located in Markham, Ontario. The facilities include office space, an engineering laboratory, manufacturing facilities and storage space occupying approximately 10,400 square feet located at 245 Riviera Drive, Markham Ontario. The lease on such facilities expires on December 31, 2002. Telepanel S.A.R.L. is located in Paris, France. The facilities include office space and storage of approximately 1,600 square feet. Management of Telepanel believes that such facilities are adequate for its needs through the end of the lease period and does not expect to have any difficulty locating such additional office, laboratory or manufacturing facilities as may be required in the future.

Employees

Telepanel currently has 31 full-time employees in North America, consisting of 4 employees engaged in marketing and sales, 8 in research and development, 10 in manufacturing, 4 in customer service and 5 in general and administration duties. Telepanel also employs 3 European employees, consisting of 2 employees in marketing and sales and 1 in general and administration.

ACQUISITIONS

There have been no material acquisitions or dispositions of the shares or assets of the Company or any of its subsidiaries during the past two years.

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

The following discussion should be read in conjunction with, and is qualified in its entirety by, the audited financial statements of the Company and notes relating thereto included in this prospectus. Historical results of operations, percentage relationships and any trends that may be inferred there from are not necessarily indicative of the operating results of any future period.

Three Months Ended April 30, 2000 Compared to Three Months ended April 30, 1999

Revenue. During the first quarter of fiscal 2001, the Company recorded revenues of $541,995 as compared to $1,466,613 during the corresponding period in 2000. The revenue decline is due to the Company focusing its efforts and resources to obtain revenue through the exclusive distribution agreement with IBM.

Cost of Sales. The gross margin for the three month period ended April 30, 2000 has decreased significantly due to the allocation of fixed manufacturing costs to decreased volumes as compared to the three-month period ended April 30, 1999.

Selling, General and Administration. Selling, general and administration expenses include sales, marketing, customer support, finance and executive personnel, professional services, office and occupancy costs required to manage the Company. The increase in selling, administration and operations expenses in the first three months of fiscal 2001 to $751,689 from $672,828 in the first three months of fiscal 2000 was a direct result of the first time inclusion of three months of activity of the Company's wholly-owned European subsidiary.

Research and Development. Research and development expenses consist of the personnel and equipment expense required to conduct the Company's product development projects. The expenditure of $182,710 in the first three months of fiscal 2001 is comparable to the expenditure of $204,578 in the first three months of fiscal 2000.

Interest Expense. The Company's interest expense, including the amortization of debenture discount of $132,301 (April 30, 1999 - $nil) in the first three months of fiscal 2001, increased to $467,642 compared to $200,546 in the first three months of fiscal 2000. This increase was due to a higher level of indebtedness and non-cash interest charges.

Year Ended January 31, 2000 Compared to Year Ended January 31, 1999

Revenue. During fiscal 2000, the Company recorded revenues of $2,838,277 as compared to $6,062,855 during the corresponding period in 1999. The revenue decline is due, in part, to the fact that by fiscal 2000 the Company had completed the roll-out of its product in the State of Connecticut, the fact that the Company introduced a new product in fiscal 2000, and that year 2000 issues moved the purchasing focus of retailers to calendar year 2000.

Cost of Sales. Product cost reduction continues to be a major objective for the Company. Fixed manufacturing costs were allocated to less revenue in fiscal 2000 resulting in a fiscal 2000 gross margin of 31% compared to 42% in fiscal 1999.

Selling, General and Administration. Selling, general and administration expenses include sales, marketing, customer support, finance and executive personnel, professional services, office and occupancy costs required to manage the Company. The decrease in selling, administration and operations expenses in fiscal 2000 to $3,405,257 from $4,455,656 in fiscal 1999 was a direct result of lower revenues.

Research and Development. Research and development expenses consist of the personnel and equipment expense, required to conduct the Company's product development projects. The expenditure of $910,151 in fiscal 2000 is comparable to the expenditure of $1,014,838 in fiscal 1999.

Capital Expenditures. The Company's capital expenditures consist primarily of computer hardware and software. Other capital expenditures consist of capital asset purchases such as furniture and equipment for office personnel. In fiscal 2000, the Company's capital expenditures totalled $35,522 compared to $21,927 in fiscal 1999.

Year Ended January 31, 1999 Compared to Year Ended January 31, 1998

Revenue. During fiscal 1999 the Company recorded revenues of $6,062,855 compared to $9,577,746 in fiscal 1998. Revenue decreased by 37% from fiscal 1998 as the Company completed its roll-out orders in the State of Connecticut.

Cost of Sales. Cost of sales decreased as a result of the Company's continuing efforts to reduce costs. Gross margin was 42% in fiscal 1999 as compared to 29% in fiscal 1998.

Selling, General and Administration. Selling, general and administration expenses decreased in fiscal 1999 by 18% to $4,455,656 from $5,429,733 in fiscal 1998 due to the reduction in the number of Telepanel System installations.

Research and Development. In fiscal 1999, research and development expenditures increased to $1,014,838 from $920,677 in fiscal 1998 as a result of the need for additional spending concerning the Company's objective of enhancing the capabilities of its existing product and of reducing product costs.

Capital Expenditures. The Company's capital expenditures totalled $21,927 in fiscal 1999 compared to $56,682 in fiscal 1998.

Year Ended January 31, 1998 Compared to Year Ended January 31, 1997

Revenue. During fiscal 1998, the Company recorded revenues of $9,577,246 up from $2,856,425 in fiscal 1997. The increase in fiscal 1998 was a result of the Company being awarded the business for the roll-out of their product in two major retail chains in the State of Connecticut.

Cost of Sales. The decrease in fiscal 1998 in the cost of the product resulted in a gross margin of 29% up from 19% in fiscal 1997.

Selling, General and Administration. The increase in selling, general and administration expenses in fiscal 1998 to $5,429,733 from $3,116,776 in fiscal 1997 was primarily attributable to the increase in the number of product installations.

Research and Development. In fiscal 1998, there was an increase in gross research and development expenses to $920,677 up from $499,034 in fiscal 1997. The Company increased resources in this area in fiscal 1998 to further enhance the existing product, to improve product performance and to further reduce the product cost.

Capital Expenditures. In fiscal 1998, the Company's capital expenditures totalled $56,682 compared to $44,996 in fiscal 1997.

Liquidity and Capital Resources

During the first quarter of fiscal 2001, the Company's cash and cash equivalent increased from $21,522 to $4,420,899 as a result of the net proceeds received on the issue of special warrants of $4,650,000 and the net proceeds received from IBM pursuant to the License and Marketing Agreement, which was reduced principally by the Company's cash loss from operations and reduction of accounts payable and accrued liabilities.

During fiscal 2000, there was a decrease in the Company's cash position of $370,103 to $21,522 compared to a cash position of $391,625 in fiscal 1999. The Company's bank indebtedness in fiscal 2000 was $1,444,544 as compared to $444,544 in fiscal 1999.

The majority of the Company's revenues in fiscal 2000 were earned in U.S. dollars. The Company's earnings are therefore affected by fluctuations in the value of the Canadian dollar as compared to the U.S. dollar. While the Company does not presently have a formal program to manage its exposure to foreign currency fluctuations, it intends to continue to monitor its ongoing risk in this area. Management believes its financial reserves and funds provided by ongoing operations as well as the net proceeds from this offering will be sufficient to meet the Company's short-term needs approximately to the end of fiscal 2001. In order to achieve its long-term growth strategy, additional sources of capital may be required. If so, it is the Company's intention to finance future growth through equity or debt offerings.

Future Prospects and Risks

The Company is optimistic about its prospects for growth in the potentially large ESL market. However, the Company operates in a market that is highly speculative. Revenue is largely dependent on the ability of the Company to demonstrate the cost benefits of its product for the major retail chains and obtain large orders for them. As a result, fluctuations in revenue may occur which may have a material impact on the Company's revenues and earnings in a quarter as a result of the relatively fixed nature of the Company's operating expenses.

CAPITALIZATION OF THE COMPANY

The following table and notes set forth the capitalization of the Company as at April 30, 2000 before and after giving effect to this offering. This table should be read in conjunction with the financial statements of the Company and notes included elsewhere in this prospectus.

	April 30, 2000 (unaudited)	June 30, 2000 (unaudited)
Indebtedness		
Debentures	$5,876,319	$5,969,270
Shareholders' Equity		
Common Shares and Warrants	$38,791,886	$40,799,744
(authorized - unlimited)	(19,021,427)	(20,259,827)
Other Equity	$2,225,181	$2,225,181
Deficit (1)	($47,854,676)	($47,854,676)
Total Shareholders' Deficiency	($6,837,609)	($4,829,751)
Total Consolidated Capitalization Excess (deficiency)	($961,290)	$1,139,519

Note:
1. As of April 30, 2000.

DESCRIPTION OF SHARE CAPITAL

The authorized capital of the Company consists of an unlimited number of Common Shares and an unlimited number of preference shares, issuable in series. Immediately prior to the completion of this offering and the exercise of the Special Warrants, there will be 20,294,413 Common Shares and no preference shares issued and outstanding. See "Prior Issuances". The following is a summary of the material provisions of the authorized share capital of the Company.

Preference Shares

The preference shares rank senior to the Common Shares as to the payment of non-cumulative dividends and in the distribution of assets in the event of the liquidation, dissolution or winding-up of the Company. The number of preference shares to be issued and the rights, privileges, restrictions and conditions attached to these shares will be determined by the directors prior to issuance.

Common Shares

The holders of Common Shares are entitled to one vote at meetings of the shareholders of the Company and to receive dividends if, as and when declared by the board of directors of the Company. Holders of Common Shares will participate rateably in any distribution of the assets of the Company upon its liquidation, dissolution or winding-up, subject to the rights of preference shareholders.

DIVIDEND POLICY

The Company intends to retain future earnings to finance the development of its business and, accordingly, does not anticipate paying dividends on its Common Shares in the foreseeable future. Any future determination to pay dividends will be at the discretion of the Company's board of directors and will depend upon the Company's results of operations, capital requirements and such other factors as the board of directors consider relevant. The Company has not paid dividends in the last five years.

USE OF PROCEEDS

The net proceeds to the Company from the sale of the Special Warrants, after deducting fees payable to the Agents and the estimated expenses of the offering, and assuming that none of the Special Warrants are rescinded, will be $4,500,000. See “Details of the Offering”. The Company expects to use the net proceeds from the offering for the following purposes: for general corporate purposes, including working capital (24%); to fund the acquisition of leasehold improvements, fixtures and equipment used in the operation of the business (5%); to engage in research and development activities in connection with new products and to enhance its existing products (37%); to support IBM’s sales and marketing efforts (10%); and to enhance its ability to manufacture the anticipated volumes (24%). To date, the Company has spent approximately $1,500,000 of the net proceeds for working capital purposes and in research and development. Pending such uses, the Company intends to invest the balance of the net proceeds of the offering in short term, interest bearing, investment grade securities.

DIRECTORS AND OFFICERS

The following table sets forth the name, municipality of residence, position held with the Company and principal occupation of each of the directors and officers of the Company:

Name and Municipality of Residence	Position with the Company	Principal Occupation
Christopher R. Skillen Toronto, Ontario	President and Chief Executive Officer and Director	Officer of the Company
Gregory P. Miller Toronto, Ontario	Executive Vice President and Chief Operating Officer	Officer of the Company
Garth L. Aasen Markham, Ontario	Executive Vice President, Sales and Marketing	Officer of the Company
Robert O. Aders New Jersey, U.S.A.	Director	Chairman, The Advisory Board (an international consulting organization)
Joseph Riz (2) Don Mills, Ontario	Director and Chairman of the Board	Managing Director, TriCapital Management Limited (merchant banking and financial advisory firm)
Donald W. Paterson (1)(2) Toronto, Ontario	Director	President, Cavandale Corporation (corporate strategy advisor)
Barry J. Reiter (1)(2) Toronto, Ontario	Director	Partner, Torys (law firm)
Brian A. Robbins Aurora, Ontario	Director	President and Chief Executive Officer, Exco Technologies Limited (precision engineered tooling company)

Name and Municipality of Residence	Position with the Company	Principal Occupation
Robert Zwartendijk The Netherlands	Director	Corporate Executive Board, Royal Ahold (international supermarket chain), and President of Ahold USA, Inc. from 1989 to 1998

Notes:
(1) Member of Compensation Committee.
(2) Member of Audit Committee.

Each of the directors and officers of the Company has been engaged in his present occupation for the past five years or, where such occupation has been with the Company, in the occupation described above, except as otherwise described below.

Christopher R. Skillen, President and Chief Executive Officer. Mr. Skillen joined the Company in January 1986 as Vice President, Sales and Marketing. In April 1989, he became President and Chief Executive Officer. Prior to joining Telepanel, Mr. Skillen held a series of senior management positions with Crowntek Inc., a mainframe, microcomputer and communications company, including Vice President, Marketing of Crowntek Technology distributors Inc., a start-up microcomputer distribution company. Mr. Skillen received a Bachelors degree in Computer Science from Sir George Williams University.

On July 18, 2000, the Company announced that a search for a new President and Chief Executive Officer had begun and the Company expects the search to be completed in the very near future. Mr. Skillen has agreed to remain with the Company during the transition period in an active role.

Gregory P. Miller, Executive Vice President and Chief Operating Officer. Mr. Miller joined Telepanel in August 1996. Prior to joining Telepanel, Mr. Miller gained expertise in finance, internal controls, acquisition reviews, general operations and sales, serving as Vice President and Chief Financial Officer of CFS Group Inc., an adhesives and coating company which he joined in 1987, after three years at TNT, a large transportation company. He began his career at Clarkson Gordon (now Ernst & Young) where he practised as a Chartered Accountant from 1979 to 1984. Mr. Miller received an Honours Bachelors degree in Commerce from Queen's University.

Garth L. Aasen, Executive Vice President, Sales and Marketing. Mr. Aasen joined the Company in 1987 as Director of Sales and Marketing. From April 1989 to November 1996, Mr. Aasen was Vice President, Sales and Marketing. Prior to joining Telepanel, Mr. Aasen held a broad range of senior sales, marketing and product development positions at Crowntek Inc. He received a Bachelors degree in Computer Science from University of Saskatchewan.

Robert O. Aders. Mr. Aders is Chairman of The Advisory Board, an international consulting organization and President Emeritus and a member of the Food Marketing Institute ("FMI") an industry trade association where he served as Chief Executive Office from its founding in 1976 until his retirement in 1993. Immediately prior to his election as President of FMI, Mr. Aders was Acting Secretary of Labor in the Ford Administration. From 1957 to 1974, Mr. Aders was with the Kroger Company, now the leading United States supermarket company, serving in a number of executive positions before being elected Chairman of the Board in 1970. Mr. Aders received a Bachelors degree in Business Administration from Miami University and a degree in law from Indiana University. Mr. Aders also serves as a director of Coinstar Inc., Source Information Management Co. and Spar Marketing Inc.

Joseph Riz. Mr. Riz has been the Managing Director of TriCapital Management Limited, a merchant banking and financial advisory firm since 1985. Mr. Riz obtained a Bachelors degree in Business Administration from York University and a Masters degree in Business Policy from Columbia University. He also serves as a director of Quadrant Cosmetics Corporation, a cosmetics and fragrance company, and Stake Technology Limited, a process technology company as well as a number of private companies.

Donald W. Paterson. Mr. Paterson has been the President of Cavandale Corporation, a corporate strategy advisory company, since November 1988. Prior to 1988, he was Vice-President and Director in the Corporate Finance department of Wood Gundy Inc. Mr. Paterson received a Bachelors degree in Honors Business Administration from the University of Western Ontario. He also serves as a director of Atlantis Communications Inc., EFOS Corporation, Imutec Corporation, JIT Learning Products Inc., Lightscape Technologies Inc., Microforum Inc., Mitel Corporation, NewGrowth Corp. and Utility Corp.

Barry J. Reiter. Mr. Reiter is a partner and a member of the Executive Committee of Torys, a law firm with offices in Toronto, New York and Beijing. He received his LL.B. from Osgoode Hall Law School in 1972 (Gold Medalist) and a B.C.L. degree from Oxford University in 1974. Mr. Reiter also serves as a director of Algorithmics Inc. (enterprise financial risk management company, of which he is Chairman), Alliance Atlantis Communications Inc. (filmed entertainment production and distribution company), Battery Technologies Inc. (rechargeable energy systems company, of which he is Chairman), Eco Waste Solutions Inc. (environmentally attractive waste disposal systems), EFOS Corporation (optical technology products), Lorus Therapeutics Inc. (biotechnology), Royal Bank Ventures Inc. (early stage and venture investment fund), and 724 Solutions Inc. (wireless solutions).

Brian A. Robbins. Mr. Robbins is the President and Chief Executive Officer of Exco Technologies Limited, a precision engineered tooling company. He received a Bachelors degree in applied science in mechanical engineering from the University of Waterloo in 1970 and is a professional engineer as defined by his membership in the Association of Professional Engineers of Ontario. He also serves as a director of Algoods Limited, a diversified manufacturing company, DevTek Corporation, a diversified manufacturing company and Noma Corporation, an industrial products company. In addition, Mr. Robbins is Chairman of Tecsyn International, a diversified technology and manufacturing company.

Robert Zwartendijk. Mr. Zwartendijk, served as Chief Executive Officer, President and a member of the Corporate Executive Board of Royal Ahold, a leading international supermarket chain, from 1981 until his retirement in 1998. From 1989 to 1998, he was President of Ahold USA, Inc. Under his leadership, Ahold became one of the largest supermarket chains in the United States, with more than 1,000 stores and annual sales of U.S.$16.2 billion. Prior to joining Ahold in 1977, Mr. Zwartendijk held executive positions at Unilever, Polaroid and Molnlycke. In addition to Telepanel, Mr. Zwartendijk serves on the board of several public corporations in North America and Europe.

EXECUTIVE COMPENSATION

Compensation of Officers

The following table sets forth all compensation earned during the last three most recently completed fiscal years by the President and Chief Executive Officer and by the other executive officers of the Company whose total annual salary and bonus exceeded $100,000 (together, the "Named Executive Officers"):

SUMMARY COMPENSATION TABLE

		Annual Compensation		Long-Term Compensation	
Name and Principal Position	**Fiscal Year**	**Salary ($)**	**Bonus ($)**	**Securities Under Options Granted (#)**	**All Other Compensation ($)**
Christopher R. Skillen President & Chief Executive Officer	2000 1999 1998	$245,500[2] $245,500[2] $245,500	$0 $0 $207,350[1]	309,000[3] 250,000 0	$10,200 $10,200 $9,624
Gregory P. Miller Executive Vice President, Chief Operating Officer	2000 1999 1998	$175,000 $175,000 $144,000	$25,000 $92,500 $75,000	70,000 120,000 0	$10,176 $10,176 $9,600
Garth L. Aasen Executive Vice President, Sales & Marketing	2000 1999 1998	$176,000 $160,000 $160,000	$0 $0 $86,400[1]	60,000 120,000 0	$10,176 $10,176 $9,600

Notes:

(1) The value of the common shares issued to the named executives pursuant to a compensation plan established by the board of directors (in consultation with the Compensation Committee).

(2) Included in the fiscal year 2000 Annual Compensation is $175,000 in salary deferral for fiscal year 2000 and $102,000 in salary deferral for fiscal year 1999 representing compensation accrued in the fiscal year and paid in May, 2000.

(3) Included are 170,000 options issued with respect to the salary deferral referred to in Note (2) above.

OPTIONS GRANTED DURING THE MOST RECENTLY COMPLETED FISCAL YEAR

Name	**Securities Under Options/SARs Granted (#)**	**% of Total Options/SARs Granted to Employees in Financial Year**	**Exercise or Base Price ($/Security)**	**Market Value of Securities Underlying Options/SARs on the Date of Grant ($/Security)**	**Expiration Date**
Christopher R. Skillen	309,000	45.5%	$1.10	$1.10	June 16, 2004
Gregory P. Miller	70,000	10.3%	$1.10	$1.10	June 16, 2004
Garth L. Aasen	60,000	8.8%	$1.10	$1.10	June 16, 2004

AGGREGATED OPTION EXERCISED DURING THE MOST RECENTLY COMPLETED FINANCIAL YEAR AND FINANCIAL YEAR-END OPTION VALUES

Name	Securities Acquired on Exercise (#)	Aggregate Value Realized ($)	Unexercised Options/SARs at January 31, 2000 (#) Exercisable/ Unexercisable	Value of Unexercised In-the-Money Options/SARs at January 31, 2000 ($) Exercisable/ Unexercisable(1)
Christopher R. Skillen	0	$0	764,000/132,000	$1,012,460/$257,050
Gregory P. Miller	0	$0	250,000/65,000	$321,500/$126,500
Garth L. Aasen	0	$0	270,000/60,000	$276,000/$117,000

Notes:
(1) The Common Share price as of January 31, 2000 was $3.00.

Employment Agreements

The Company employs Mr. Skillen pursuant to an Executive Employment Agreement that is effective from January 1, 1997. Under this agreement, Mr. Skillen's remuneration includes a base salary of $245,500 that is subject to annual review, and an entitlement to receive bonus remuneration as determined by the board of directors from time to time in accordance with any applicable management incentive compensation plan. Mr. Skillen is also entitled to receive stock options, at the discretion of the directors. Mr. Skillen participates in all Telepanel executive benefits, which currently include health, dental, life insurance, disability and automobile allowance benefits. Mr. Skillen's agreement includes 12-month non-competition and non-solicitation of employees, clients, and suppliers provisions as well as customary confidentiality and intellectual property ownership provisions for the benefit of Telepanel.

Mr. Skillen is obligated to provide a minimum of 2 months' notice to terminate this agreement and has agreed to provide as much additional notice as may be possible. Telepanel may, in general, terminate Mr. Skillen's employment on 12 months' notice (or payment in lieu of notice). However, after a "Change of Control" not concurred in by a majority of directors in place before the change, Mr. Skillen's rights are amended as follows: basic salary increases to 125% of its existing level; bonus is guaranteed for the current year to be at least what it was in the previous year; all unvested options vest immediately; if Mr. Skillen resigns within 6 months he will be deemed to have had his employment terminated without cause and be entitled to 12 months' remuneration; if Mr. Skillen remains in the employ of Telepanel for at least 6 months, he will be entitled to a bonus equal to 50% of his then-basic salary; and if Telepanel terminates Mr. Skillen's employment without cause, the notice period will be increased to 24 months.

The Company employs Mr. Miller pursuant to an employment agreement that is effective from July 12, 1996. Mr. Miller's remuneration includes a base salary of $175,000 that is subject to annual review and an entitlement to receive bonus remuneration as determined by the board of directors from time to time in accordance with any applicable management incentive compensation plan, with a minimum bonus of $25,000 per year, and a maximum bonus of 60% of salary, payable in cash or shares. Mr. Miller's agreement contains stock option participation (with an initial grant of 125,000 options), benefits, non-competition/non-solicitation and confidentiality and intellectual property ownership provisions comparable to those applicable to Mr. Skillen. If Telepanel terminates Mr. Miller's employment it will provide monthly compensation of $14,500 per month (payable in cash or shares) for 12 months, less earnings accruing from other work during that period.

The Company employs Mr. Aasen pursuant to an Executive Employment Agreement that is effective from February 1, 1997. Under this agreement, Mr. Aasen's remuneration includes a base salary of $176,000 that is subject to annual review and an entitlement to receive bonus remuneration as determined by the board of directors from time to time in accordance with any applicable management incentive compensation plan (currently 50% of base salary). Mr. Aasen's agreement contains stock option participation, benefits, non-competition, non-solicitation and confidentiality and intellectual property ownership provisions comparable to those applicable to Mr. Miller and Mr. Skillen.

Mr. Aasen is obliged to provide a minimum of 2 months' notice to terminate this agreement and has agreed to provide as much additional notice as possible. If Telepanel terminates Mr. Aasen's employment it will provide compensation for 14 months, less earnings accruing from other work during that period.

Compensation of Directors

Directors' compensation is payable either in cash or by the issuance of shares with a market value on the date of issue equal to the amount of the related directors' compensation. During the fiscal year end January 31, 2000, 68,184 shares were issued to the unrelated directors as a group in lieu of $75,000 cash compensation otherwise payable and options to purchase 60,000 common shares of the Company at the market price on the date of issue.

Two of the Company's directors (Messrs. Riz and Aders) currently provide additional services to the Company. Under contracts entered into in 1999, Mr. Riz is compensated at the rate of $3,000 per month for the position of chairman through TriCapital Management and Mr. Aders is compensated at the rate of US$6,000 per month for sales and marketing assistance provided to the Company, such compensation being payable in cash or common shares of the Company. All such compensation has been satisfied through the issuance of common shares. Mr. Riz was issued 28,484 common shares during the 2000 fiscal year and Mr. Aders was issued 72,337 common shares during the 2000 fiscal year as payment under their respective contracts. As part of these contracts, Mr. Riz was granted options on 36,000 common shares and Mr. Aders was granted options on 50,000 common shares exercisable at $1.10 for a period of five years from the date of issue. Mr. Riz's contract ended on January 31, 2000 and Mr. Aders contract ended on September 30, 1999.

INDEBTEDNESS OF DIRECTORS, EXECUTIVE OFFICERS AND SENIOR OFFICERS

As at January 31, 2000, none of the directors, officers, employees or former directors, officers or employees of the Company or associates of them were indebted to the Company.

SHARE COMPENSATION PLAN

On July 7, 1994, the Company approved an Employee Incentive Stock Option Plan (the "Option Plan") as a means of attracting, retaining and rewarding key senior executives, managers and employees.

Pursuant to the Option Plan, options to purchase Common Shares may be granted from time to time by the board of directors of the Company at an exercise price determined by them, which in no case will be less than that required by any applicable regulatory authority. The Plan permits the Compensation Committee to issue options that will allow senior management to increase its equity position. For employees with a minimum of one year with the Company, new grants of options vest 50% on the issuance date, 25% twelve months from the issuance date and the remaining 25% twenty-four months from the issuance date.

The following table sets out, for the three identified groups of option holders: the date of grant of the options; the number of Common Shares under option; the exercise price of the options; the estimated market value of the Common Shares on the date of grant; the August 1, 2000:

Option Holders by Group	Date of Grant	Common Shares Under Options Granted	Exercise Price per Common Share	Market Value of Common Shares on Date of Grant	Expiry Date	Market Value of Common Shares as of May 2, 2000	Market Value of Common Shares as of August 1, 2000
Executive Officers	May 23, 1996	80,000	$2.50	$200,000	May 23, 2001	$240,000	$140,800
	Aug. 12, 1996	125,000	$2.40	$300,000	Aug. 12, 2001	$375,000	$220,000
	Nov. 5, 1996	137,000	$2.07	$283,590	Nov. 5, 2001	$411,000	$241,120
	Sept. 21, 1998	490,000	$1.00	$490,000	Sept. 21, 2003	$1,470,000	$862,400
	June 16, 1999	439,000	$1.10	$482,900	June 16, 2004	$1,317,000	$772,640
	June 13, 2000	350,000	$1.95	$682,500	June 13, 2005	$nil	$616,000
Directors (who are not Executive Officers)	Jan. 19, 1996	30,000	$2.09	$62,700	Jan. 19, 2001	$90,000	$52,800
	Feb. 29, 1996	33,000	$1.90	$62,700	Feb. 29, 2001	$99,000	$58,080
	Sept. 19, 1996	10,000	$2.30	$23,000	Sept. 19, 2001	$30,000	$17,600
	Nov. 12, 1996	105,000	$2.11	$221,550	Nov. 12, 2001	$315,000	$184,800
	Jan. 18, 1998	75,000	$2.20	$165,000	Jan. 18, 2003	$225,000	$132,000
	Sept. 21, 1998	87,500	$1.00	$87,500	Sept. 21, 2003	$262,500	$154,000
	June 16, 1999	146,000	$1.10	$160,600	June 16, 2004	$438,000	$256,960
	June 13, 2000	240,000	$1.95	468,000	June 13, 2005	$nil	$422,400
Employees (Note 1)	Feb. 2, 1995	16,000	$1.70	$27,200	July 31, 2000	$48,000	$28,160
	April 20, 1995	7,000	$1.70	$11,900	Oct. 20, 2000	$21,000	$12,320
	Jan. 19, 1996	30,000	$2.00	$60,000	Jan. 19, 2001	$90,000	$52,800
	May 23, 1996	46,750	$2.50	$116,875	May 23, 2001	$140,250	$82,280
	July 17, 1996	20,000	$2.50	$50,000	July 17, 2001	$60,000	$35,200
	Sept. 19, 1996	90,000	$2.30	$207,000	Sept. 19, 2001	$270,000	$158,400
	Nov. 27, 1996	500,000	$2.00	$1,000,000	Nov. 27, 2001	$1,500,000	$880,000
	April 7, 1997	10,000	$2.75	$27,500	April 7, 2002	$30,000	$17,600
	Oct. 14, 1997	22,500	$4.40	$99,000	Oct. 14, 2002	$67,500	$39,600
	June 18, 1998	4,000	$1.50	$6,000	June 18, 2003	$12,000	$7,040
	Sept. 21, 1998	140,125	$1.00	$140,125	Sept. 21, 2003	$420,375	$246,620
	June 16, 1999	182,000	$1.10	$200,200	June 16, 2004	$546,000	$320,320
	Jan. 16, 2000	168,500	$2.40	$404,400	Jan. 16, 2005	$505,500	$296,032
	June 13, 2000	150,000	$3.25	$292,500	June 13, 2005	$nil	$264,000
	June 13, 2000	64,000	$1.95	$124,800	June 13, 2005	$nil	$112,640

Notes:

1. Stock options awarded to consultants to the Company are included in this category.

PRINCIPAL SHAREHOLDERS

Prior to the completion of this offering, to the knowledge of the Company, the only persons or companies who own of record or beneficially, directly or indirectly, more than 10% of the Common Shares are:

Name and Municipality	Type of Ownership	Number of Securities	Percentage of Class Before this Offering	Percentage of Class After this Offering(1)
The Vengrowth Investment Fund, Inc.	Direct	3,924,335(2)	17.4%	24.7%
Royal Bank Ventures Inc.	Direct	2,794,793(3)	12.9%	11.7%

Notes:

(1) Assumes 1,469,652 Special Warrants are converted into 1,469,652 Common Shares and 734,826 purchase warrants pursuant to this offering.

(2) Includes 336,447 Common Shares, convertible debentures and a convertible promissory note for 2,554,235 Common Shares and purchase warrants for 1,033,653 Common Shares.

(3) Includes 93,334 Common Shares, a convertible debenture and a promissory note for 407,473 Common Shares and purchase warrants for 2,294,166 Common Shares.

DILUTION

The Common Shares offered hereby will be subject to immediate dilution with respect to the offering price per Common Share compared to the net tangible book value per Common Share. The following table sets forth the dilution per Common Share as at January 31, 2000 derived from the audited balance sheet of the Company as at that date.

		Per Share
Offering price		$3.30
Net tangible book value deficiency prior to the offering	($0.54)	
Increase of net tangible book value attributable to the offering	$0.26	
Net tangible book value deficiency after the offering		($0.28)
Dilution to subscribers of Special Warrants (up to 100% of the Offering Price)		$3.30
Dilution as a percentage of offering price		100%

DETAILS OF THE OFFERING

On April 5, 2000 (the “Closing Date”), the Company issued 1,515,152 Special Warrants at a price of $3.30 per Special Warrant (the “Issue Price”) for aggregate gross proceeds of $5,000,000. The Special Warrants were subscribed for by investors on a private placement basis as provided for in an agency agreement (the “Agency Agreement”) dated April 5, 2000 between Canaccord Capital Corporation, Paradigm Capital Inc. (collectively, the “Agents”) and the Company. 1,469,652, Special Warrants were issued to The Vengrowth Investment Fund, Inc. and 45,500 Special Warrants were issued to BCM Arbitrage Fund. Special Warrants are evidenced by special warrant certificates (the “Special Warrant Certificates”), dated April 5, 2000 issued by the Company to holders of the Special Warrants. Each Special Warrant entitles the holder to receive, upon exercise and without additional payment, one Common Share and one-half of one Purchase Warrant, subject to adjustment, at any time after April 5, 2000 and prior to 5:00 p.m. (Toronto time) on the first to occur (the “Expiry Time”) of (i) the fifth business day after the date (the “Receipt Condition”) on which a receipt has been issued by the Ontario Securities Commission (the “OSC”) for this final prospectus; and (ii) April 5, 2001. Each whole Purchase Warrant entitles the holder to purchase one Common Share at an exercise price of $4.00, subject to adjustment, at any time on or before April 5, 2002.

The Purchase Warrants will be evidenced by warrant certificates (the “Warrant Certificates”) issued by the Company to holders of the Special Warrants.

The Warrant Certificates will contain provisions to the effect that in the event of any subdivision, consolidation, change, reclassification or alteration of the Common Shares or in the event of the consolidation, amalgamation or merger of the Company with another corporation, a proportionate adjustment or change will be made in the number and kind of securities issuable on the exercise of the Purchase Warrants.

The Warrant Certificates will provide for an adjustment in the number of Common Shares issuable upon exercise of the Purchase Warrants and/or the subscription price per Common Share in the event of: (a) the subdivision or consolidation of the Common Shares; (b) the issue of a stock dividend on Common Shares or other distribution of Common Shares or securities convertible into Common Shares (other than a “dividend paid in the ordinary course”, as defined in the Warrant Certificate); and (c) the distribution to all or substantially all of the holders of Common Shares of shares of any other class or of rights, options or warrants to acquire Common Shares or securities convertible into Common Shares or property or other assets of the Company or of evidences of indebtedness or of assets (other than a “dividend paid in the ordinary course”, as defined in the Warrant Certificate).

No adjustment in the exercise price or the number of Common Shares purchasable upon exercise of the Purchase Warrants will be made unless the cumulative effect of such adjustment or adjustments would change the exercise price under a Purchase Warrant by at least 1%.

The Company will covenant in the Warrant Certificate that it will maintain its status as a reporting issuer and maintain the listing of the Common Shares on the TSE for a period of 24 months following closing.

No fractional Common Shares will be issuable upon the exercise of any Purchase Warrants. Holders of Purchase Warrants will not have any voting or pre-emptive rights or any other rights which a holder of Common Shares would have.

The Company will disclose the exercise of any Warrants to the applicable securities commissions or similar regulatory authorities having legislation requiring notice thereof in order that sales of Common Shares acquired pursuant to the exercise of Purchase Warrant will not generally be subject to the prospectus requirements of such legislation.

If the Receipt Condition is not satisfied on or before August 3, 2000 (the “Qualification Deadline”), the holders of the Special Warrants originally issued to BCM Arbitrage Fund will be entitled to receive, upon exercise and without additional payment prior to the Expiry Time, 1.1 Common Shares in lieu of one Common Share and 0.55 Purchase Warrants in lieu of one-half of one Purchase Warrant.

The Company has agreed with the Agent: (i) to use its best efforts to file, with all relevant securities regulatory authorities, a preliminary prospectus qualifying the distribution of the Common Shares and the Special Warrants as soon as practicable after the Closing Date, (ii) to use reasonable commercial efforts to resolve all regulatory comments and deficiencies as soon as practicable and (iii) upon resolution of all regulatory comments and deficiencies, to use its best efforts to file a final prospectus in form and substance acceptable to the Agent and obtain receipts from the OSC for this final prospectus by the Qualification Deadline.

Pursuant to the terms of the Agency Agreement, the Agents received a commission equal to 7% of the gross proceeds of the offering as a fee for the private placement of the Special Warrants. In addition, on the Closing Date the Company granted to the Agents 151,151 Special Broker Warrants to acquire at any time on or before the Expiry Time, for no additional consideration, 151,151 Broker Warrants. Each Broker Warrant entitles the holder to purchase one Common Share and one half of one Broker Purchase Warrant at an exercise price of $4.00, subject to adjustment, at any time on or before April 5, 2002. Each whole Broker Purchase Warrant entitles the holder to purchase one Common Share for $4.00 at any time on or before April 5, 2002. This prospectus also qualifies the distribution of 75,758 Broker Warrants to the Agents.

The Common Shares 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 sold in the United States.

PRICE RANGE AND TRADING VOLUME

The Common Shares are listed for trading on The Toronto Stock Exchange. The following table sets forth the price quotations and trading volume for the Common Shares for the periods indicated:

Period	High	Low	Volume
2000			
July, 2000	$2.10	$1.70	76,273
June, 2000	$2.75	$1.79	211,300
May, 2000	$3.21	$2.50	115,146
First Quarter	$4.15	$2.51	3,129,918
1999			
Fourth Quarter	$4.00	$1.70	3,147,884
Third Quarter	$2.80	$1.10	1,933,595
Second Quarter	$1.30	$.70	1,418,798
First Quarter	$1.00	$.55	937,156
1998			
Fourth Quarter	$1.10	$.41	833,344
Third Quarter	$1.60	$.65	808,534

PRIOR ISSUANCES

The following table sets out the details of all issuances of Common Shares during the period from May 1, 1999 to May 2, 2000:

Date of Issuance	Description of Transaction	Number of Common Shares Issued	Price per Common Share
June 16, 1999	Alternate Compensation Board of Director Fees	68,184	$1.10
June 16, 1999	Alternate Compensation	68,477	$0.79
June 16, 1999	Alternate Compensation	20,654	$0.87
July 4, 1999	Alternate Compensation	15,244	$0.82
August 30, 1999	Issued for Services	200,252	$1.50
November 19, 1999	Alternate Compensation	15,224	$1.76
November 19, 1999	Alternate Compensation	4,592	$1.96
December 15, 1999	Exercise of Warrants	153,847	$0.91
December 15, 1999	Exercise of Warrants	93,334	$1.50
January 7, 2000	Alternate Compensation	5,000	$2.50
January 7, 2000	Alternate Compensation	5,819	$2.75
January 19, 2000	Options Exercised	5,000	$1.70

Date of Issuance	Description of Transaction	Number of Common Shares Issued	Price per Common Share
February 11, 2000	Options Exercised	24,250	$1.85
February 11, 2000	Options Exercised	3,000	$1.00
February 11, 2000	Options Exercised	1,000	$1.03
February 18, 2000	Alternate Compensation	5,000	$3.00
February 21, 2000	Options Exercised	10,000	$1.90
March 1, 2000	Options Exercised	3,000	$1.10
March 1, 2000	Options Exercised	10,750	$1.85
March 6, 2000	Options Exercised	19,350	$2.11
March 15, 2000	Options Exercised	8,875	$1.04
March 17, 2000	Options Exercised	2,000	$1.03
March 23, 2000	Options Exercised	5,500	$1.00
April 19, 2000	Alternate Compensation	3,238	$2.78

RISK FACTORS

Investment in the Common Shares involves a number of potential risks.

Reliance on Single Product in Emerging Market

For the foreseeable future, the Company's revenues will be derived entirely from the Telepanel System. At this time, it is uncertain whether electronic shelf pricing systems will ultimately gain market acceptance. Demand for electronic shelf pricing systems will be affected by many factors, many of which are beyond the Company's control, including the general level of economic activity and competition within the supermarket industry. There can be no assurance that supermarket chains will choose to install electronic shelf pricing systems in a significant number of their stores. If the Telepanel System fails to generate adequate operating cash flows, whether as a result of lack of market acceptance, the inability to place or service the system, the failure of the system to perform as expected, the obsolescence of the system or otherwise, Telepanel may be unable to fulfil its obligations to its creditors.

Historical and Anticipated Losses and Negative Cash Flow

The Company has never been profitable and has never generated positive cash flow from operations. As of April 30, 2000, the Company had a cumulative net deficit of approximately $47,854,676. See "Financial Statements". Losses and negative cash flow from operations will continue until the Company establishes a sufficient revenue-generating customer base. There can be no assurance that an adequate revenue base will be established or that sales of the Company's products and services will generate positive cash flow from operations. If the Company is not able to generate profits and positive cash flow in the next few years, the Company will most likely be unable to pay the interest and principal on its indebtedness.

Substantial Leverage and Debt Service Requirements

Telepanel has never generated positive cash flow from operations. As a result, it has been required to pay its fixed charges (including interest on existing indebtedness) and operating expenses with the proceeds from sales of equity securities, loans from stockholders and other credit arrangements.

The Company's ability to make scheduled payments or to refinance its obligations and its other indebtedness will ultimately depend on its financial and operating performance, which in turn is subject to prevailing economic and competitive conditions and to certain financial, business and other factors that may be beyond its control, including operating difficulties, increased operating costs, prices it can charge its customers, the response of competitors, regulatory developments and delays in implementing its strategy. The Company's ability to meet its debt service and other obligations will depend largely on the extent to which it can implement successfully its business strategy of achieving large-scale commercialization of its ESL systems. There can be no assurance that the Company will be able to implement fully its strategy or that the anticipated results of its strategy will be realized or that the Company will be able to generate sufficient cash flow or otherwise obtain funds in the future to cover interest and principal payments on its indebtedness.

In the event Telepanel is unable to meet its obligations with respect to its existing indebtedness, it may be required to reduce or delay capital expenditures, refinance or restructure all or a portion of its indebtedness, sell material assets or operations or seek to raise additional debt or equity capital. There can be no assurance that the Company will be able to effect any such refinancing or restructuring or sell assets or obtain any such additional capital on satisfactory terms or at all, or that the Company's cash flow and capital resources will be sufficient for payment of interest on and principal of its indebtedness in the future.

Dependence on IBM

The Company is in the first year of a four year, renewable, worldwide remarketing agreement with IBM which grants IBM exclusive world marketing rights for the Company's ESL products. IBM is a key participant in the checkout counter price scanner market. If the Company's arrangements with IBM were discontinued for any reason, the Company would need to establish a new relationship with a re-marketer, or attempt to significantly increase its own sales and service force. Disruption of the IBM relationship could adversely affect the marketing of the Company's ESL products both in a direct fashion and by virtue of a loss of credibility that IBM's involvement provides. There is also a risk that IBM will be unsuccessful in its attempts to market the Company's ESL products.

Acceptance of Wireless Technology

The Company's competitors include companies developing electronic shelf pricing systems using different technologies from the Telepanel System. For example, some companies are developing or have developed products that use fluorescent lighting for one-way communication and systems that use infra-red communication technology. Telepanel has based both its research and development efforts and its marketing approach on its conclusion that the wireless system provides the most suitable medium for delivery of electronic shelf pricing. Should other methods of delivery or new methods of delivery prove more suitable technically or find more acceptance in the marketplace, sales would be adversely affected.

Regulatory Approval of ESL

The marketability of the Telepanel System could be adversely affected by legislative or regulatory action which regulates the displaying of product prices. Legislation in certain jurisdictions in North America requires individual item pricing and certain consumer groups advocate such pricing. Legislation requiring individual item pricing that does not exempt retailers using electronic shelf pricing systems would significantly reduce the appeal of the Telepanel System in the relevant jurisdiction.

Competition and Technological Change

A small number of companies are currently developing, marketing and installing electronic shelf pricing systems. Telepanel believes that the ESL system suppliers offering a product currently competing with its systems are ERS, Pricer, Inc. of Norwalk, Connecticut, a subsidiary of Pricer AB of Uppsala, Sweden, NCR Corporation, Eldat Communications Ltd. and Sitour Electronic Systems. The emerging market for electronic shelf pricing systems is characterized by rapid technological advances and evolving industry standards and is subject to a high degree of potential competition. While the Company's system is believed to offer technological advantages over competitors' systems currently in the market, several companies, including companies that are substantially larger and better capitalized than the Company, are developing similar products.

No assurance can be given that other companies, such as additional POS vendors will not enter the market in which the Company competes or that the Company will have the resources required to respond to technological changes or to compete successfully in the future. The Company is also subject to competition from vendors selling traditional paper labelling methods, as well as providers of hand-held portable data terminals.

Protection of Intellectual Property

The ability of Telepanel to compete effectively depends, in part, on the competitive advantage it enjoys as a result of its intellectual property. Telepanel relies principally upon patent and copyright protection and its trade secret program to protect its proprietary technology. There can be no assurance, however, that additional patents will be issued as a result of any applications made by the Company. In addition, although Telepanel attempts to protect its technology by patent registration where appropriate, there can be no assurance that any patents will be held to be valid and enforceable if challenged or that a competitor will not be able to circumvent an issued patent through the adoption of a competitive non-infringing product or process.

Telepanel also relies on non-disclosure agreements with its employees, customers and consultants and other parties. There can be no assurance that such measures will be adequate to protect the Company's intellectual property. Although Telepanel believes that its products and technology do not infringe on the proprietary rights of others, there can be no assurance that third parties will not assert infringement claims in the future or that such claims will not be successful. In any case, Telepanel could incur substantial costs in defending itself in patent infringement suits brought by others and in pursuing suits against potential patent infringers. Telepanel has not made a comprehensive search for potentially infringed United States, Canadian or foreign patents and therefore may be unaware of other patents that pose infringement risks.

Because of technological changes in the industry, there can be no assurance that the introduction of new products or the development of other technologies by other entities will not render the Company's products and processes obsolete or unmarketable. Moreover, increased market penetration and customer acceptance of the Company's products will depend upon the Company's ability to maintain a technically competent product development, marketing and technical support force and its ability to adapt to technology changes in its industry.

Dependence on Suppliers and Manufacturers

The Company sources its components from suppliers in North America and the Far East. The Company integrates and/or assembles certain components at its facilities in Markham, Ontario while other key components are manufactured to the Company's specifications by various suppliers in North America and the Far East. The Company believes that it could replace any of its suppliers, manufacturers or assemblers within a short period of time and without material adverse impact on the Company's business; however, unforeseen shortages of components may arise in the future and this could result in the temporary interruption of the manufacturing or assembly of the System with a corresponding temporary impact on revenues.

Dependence on Significant Customers

A significant percentage of Telepanel's historical revenues has been attributable to installations in a small number of supermarket chains. There can be no assurance that such customers will continue to install or maintain the Company's ESL systems. The failure of Telepanel's current customers to continue to utilize the combined company's systems could have a material adverse effect on the Company. In addition, customers who account for significant portions of the Company's revenues may have the ability to negotiate prices for the Company's products and services that are more favourable to those customers than to other, smaller customers, which could result in lower profit margins for the Company.

Ability to Manage Growth

If the Company obtains significant orders from large retailing chains, the Company will experience rapid growth, which in turn will place significant pressure on the Company's managerial, operational and financial condition. The Company will also be required to develop and manage multiple relationships with various customers, business partners and other third parties. The Company's systems, procedures or controls may not be adequate to support the Company's operations and Company management may not be able to achieve the rapid expansion necessary to exploit potential market opportunities for the Company's products and services. The Company's future operating results will also depend on its ability to expand its sales and marketing, and research and development organizations, to implement and manage new distribution channels, to penetrate markets and to expand its support organization. Furthermore, there can be no assurance that the Company will be successful in procuring expanded sources of the manufacture and assembly of the components of its ESL system, in expanding the capabilities of its personnel and subcontractors engaged in the installation and servicing of its system or in lowering the costs of manufacturing, installing or maintaining its system.

Risks Associated with International Sales

The Company intends to make efforts to increase sales outside of Canada and the United States. These sales are subject to certain risks and costs associated with international operations, including difficulty and expense in administering business abroad, complications in complying with foreign laws, costs related to localizing products for foreign markets and translating and distributing products in a timely manner. In addition, the laws of some foreign jurisdictions may not protect proprietary rights to the same extent as the laws of Canada or the United States.

Dependence on Key Personnel

The Company is dependent on its ability to recruit, retain and motivate high quality personnel, including technical employees, competition for whom is intense. Any inability of new management to adjust quickly to, and perform as expected in, their respective roles within the Company, or any inability of the Company to attract and retain personnel with the requisite skills, could have a material adverse effect on the Company's business, operating results and financial condition.

Possible Volatility of Price of Common Stock

Currently, the Company's Common Stock is listed on The Toronto Stock. The market price of the Common Stock could be subject to wide fluctuations in response to quarterly variations in the Company's results of operations, changes in earnings, estimates by analysts, conditions in the Company's market segment or general market or economic conditions. The Company's revenues and operating results may vary significantly from quarter to quarter as a result of various factors, including the timing of customer orders, delays in installation required by customers during peak selling periods, seasonal patterns of capital spending by customers and disruptions in sources of components. In addition, in recent years, the stock market has experienced price and volume fluctuations. These fluctuations often have had a particularly substantial effect on the market prices for many emerging growth companies, and often such fluctuations have been unrelated to their specific operating performances. Such market fluctuations could adversely affect the market price of the Common Stock.

Immediate Dilution

Subscribers for the Common Shares offered under this Prospectus will suffer immediate dilution with respect to the offering price per Common Share compared to the net tangible book value per Common Share. See "Dilution".

LITIGATION

The Company is not involved in nor is it aware of any legal proceedings that it believes could have a material adverse effect upon its financial condition or results of operations.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

No director, senior officer or associate of a director or senior officer nor, to the knowledge of the directors or senior officers of the Company after having made reasonable enquiry, any person or company who beneficially owns, directly or indirectly, more than 10% of the Common Shares of the Company outstanding at the date hereof, or any associate or affiliate thereof, had any material interest, direct or indirect, in any material transaction of the Company nor do any such persons have a material interest, direct or indirect, in any proposed material transaction of the Company.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, the only contract which the Company has entered into during the past two years which may reasonably be regarded as presently material is a worldwide remarketing agreement between the Company and IBM and dated January 11, 2000.

LEGAL MATTERS

Certain legal matters relating to the issue and sale of the Special Warrants and the Common Shares and Purchase Warrants issuable upon the exercise of the Special Warrants and qualified hereby will be passed upon on behalf of the Company by Torys and on behalf of the Agents by Cassels Brock & Blackwell LLP.

AUDITORS, TRANSFER AGENT AND REGISTRAR

The auditors of the Company are PricewaterhouseCoopers LLP, Chartered Accountants, Toronto, Ontario.

The registrar and transfer agent for the Common Shares of the Company is the Montreal Trust Company of Canada at its principal office in Toronto, Ontario.

PURCHASERS' STATUTORY RIGHTS

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

Pursuant to the terms of the subscription agreements entered into between the holders of Special Warrants, the Agents and the Company, the holders of Special Warrants waived and released the Company and the Agents from all rights of withdrawal to which they might otherwise be entitled pursuant to subsection 71(2) of the *Securities Act* (Ontario).

CONTRACTUAL RIGHT OF ACTION FOR RESCISSION

In the event that a holder of Special Warrants, who acquires Common Shares and Purchase Warrants upon exercise of Special Warrants as provided for in this Prospectus, is or becomes entitled under applicable securities legislation to the remedy of rescission by reason of this Prospectus or any amendment thereto containing a misrepresentation, such holder shall be entitled to rescission not only of the holder's exercise of its Special Warrants but also of the private placement transaction pursuant to which its Special Warrants were initially acquired, and shall be entitled in connection with such rescission to a full refund of all consideration paid by such holder, on the acquisition of the Special Warrants. In the event such holder is the permitted assignee of an interest of the original Special Warrant subscriber, such permitted assignee shall be entitled to exercise the rights of rescission and refund granted hereunder as if such permitted assignee was such original subscriber. The foregoing is in addition to any other right or remedy available to a holder of Special Warrants under section 130 of the *Securities Act* (Ontario), equivalent provisions of securities laws in the other provinces of Canada or otherwise at law.

TELEPANEL SYSTEMS INC.

CONSOLIDATED BALANCE SHEET
(UNAUDITED)

(in Canadian dollars)

	As at April 30, 2000 $
Assets	
Current assets	
Cash and cash equivalents	4,420,899
Accounts receivable	333,814
Inventories	1,486,600
Prepaid expenses	30,869
	6,272,182
Capital assets	354,740
Deferred financing charge	14,780
	6,641,702
Liabilities	
Current liabilities	
Other indebtedness	1,444,544
Accounts payable and accrued liabilities	3,809,441
Deposits on sales contracts	28,758
	5,282,743
Accrued interest on debentures	1,259,629
Debentures	5,876,319
Deferred revenue less current portion	1,060,620
	13,479,311
Shareholders' Deficiency	
Capital stock and warrants	38,791,886
Other equity	2,225,181
Deficit	(47,854,676)
	(6,837,609)
	6,641,702

On behalf of the Board of Directors

"Christopher Skillen" ________________	*"Barry J. Reiter"* ____________________
Christopher Skillen	Barry J. Reiter

TELEPANEL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
(UNAUDITED)

(in Canadian dollars)

	Three months ended April 30, 2000 $	1999 $
Revenue	541,995	1,466,613
Expenses		
Manufacturing	471,242	847,157
Selling, general and administration	751,689	672,828
Research and development	182,710	204,578
Amortization of debenture discount	132,301	-
Depreciation of capital assets	18,904	23,367
Debenture interest	206,917	155,518
Other interest	128,424	45,028
	1,892,187	1,948,476
Loss from operations before the undernoted item	(1,350,192)	(481,863)
Interest and other income	9,479	-
Loss for the period	(1,340,713)	(481,863)
Deficit - Beginning of period	(46,513,963)	(41,322,746)
Deficit - End of period	(47,854,676)	(41,804,609)
Loss per common share	(0.07)	(0.03)

TELEPANEL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(in Canadian dollars)

	Three months ended April 30, 2000 $	1999 $
Cash provided by (used in)		
Operating activities		
Loss for the period	(1,340,713)	(481,863)
Items not requiring a current outlay of cash		
Depreciation and amortization, net	81,225	23,367
Common shares issued for services	24,000	29,999
Interest accrued on debentures	171,708	-
Change in non-cash working capital	817,328	11,600
	(246,452)	(416,897)
Financing activities		
Issuance of special warrants	4,500,000	-
Issuance of common shares	148,289	-
Other indebtedness	-	600,000
	4,648,289	600,000
Investing activity		
Purchase of capital assets - net	(2,460)	-
Increase in cash during the period	4,399,377	183,103
Cash and cash equivalents - Beginning of period	21,522	391,625
Cash and cash equivalents - End of period	4,420,899	574,728
Supplemental information		
Interest paid	-	-

TELEPANEL SYSTEMS INC.

NOTE TO CONSOLIDATED BALANCE SHEET
AS AT APRIL 30, 2000
(UNAUDITED)

Capital Stock, warrants and other equity

The changes in capital stock and warrants during the period February 1, 2000 to April 30, 2000 are as follows:

	Shares	Amount $
Capital Stock		
Balance, Beginning of period	18,925,464	31,843,572
Shares issued for cash on exercise of options	87,725	148,289
Shares issued under compensation plans	8,238	24,000
Balance, End of period	19,021,427	32,015,861
Warrants		
Balance, Beginning of period		2,276,025
Issuance of 1,515,152 special warrants net of cost of issuance of $500,000		4,500,000
Balance, End of period		6,776,025
Total capital stock and warrants		38,791,886

The change in the number of shares issuable under options and the average option price per share during the period February 1, 2000 to April 30, 2000 are as follows:

	Shares issuable under options	Weighted average price per share $
Balance, Beginning of period	3,222,100	1.72
Granted	170,000	2.02
Exercised for cash	(87,725)	1.69
Balance, End of period	3,304,375	1.68

There was no change during the period February 1, 2000 to April 30, 2000 in the number of warrants outstanding at January 31, 2000 to purchase common shares of the Company and in other equity.

AUDITORS' REPORT

To the Directors of
Telepanel Systems Inc.

We have audited the consolidated balance sheets of **Telepanel Systems Inc.** as at January 31, 2000 and 1999 and the consolidated statements of operations and deficit and cash flows for each of the years in the three-year period ended January 31, 2000. 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 January 31, 2000 and 1999 and the results of its operations and its cash flows for each of the years in the three-year period ended January 31, 2000 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
April 28, 2000 except as to Note 17(b), which is as of August 2, 2000

"PricewaterhouseCoopers"

Chartered Accountants

April 28, 2000 except as to Note 17(b), which is as of August 2, 2000

COMMENTS BY AUDITORS FOR U.S. READERS ON CANADA - U.S. REPORTING DIFFERENCES

In the United States, reporting standards for auditors require the addition of an explanatory paragraph (following the opinion paragraph) when the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern, such as those described in note 1 to the financial statements. Our report to the shareholders dated April 28, 2000 is expressed in accordance with Canadian reporting standards which do not permit a reference to such events and conditions in the auditors' report when these are adequately disclosed in the financial statements.

"PricewaterhouseCoopers"

Chartered Accountants

TELEPANEL SYSTEMS INC.

CONSOLIDATED BALANCE SHEETS

(in Canadian dollars)

	January 31, 2000 $	January 31, 1999 $
Assets		
Current assets		
Cash and cash equivalents	21,522	391,625
Accounts receivable (note 11)	1,750,208	871,476
Inventories (note 3)	1,367,024	1,864,738
Prepaid expenses	27,391	13,067
	3,166,145	3,140,906
Capital assets (note 4)	371,184	430,476
Deferred financing charge	43,800	-
	3,581,129	3,571,382
Liabilities		
Current liabilities		
Other indebtedness (note 5)	1,444,544	444,544
Accounts payable and accrued liabilities (note 6)	4,267,563	3,064,585
Deposits on sales contracts	46,648	955,213
	5,758,755	4,464,342
Accrued interest on debentures	1,087,921	434,446
Debentures (note 7)	5,744,018	6,000,000
Deferred revenue less current portion (note 2)	1,159,620	-
	13,750,314	10,898,788
Shareholders' Deficiency		
Capital stock and warrants (note 8)	34,119,597	32,520,737
Other equity (note 8)	2,225,181	1,474,603
Deficit	(46,513,963)	(41,322,746)
	(10,169,185)	(7,327,406)
	3,581,129	3,571,382

See accompanying notes to financial statements.

On behalf of the Board of Directors

"Christopher Skillen"
Director

"Barry J. Reiter"
Director

TELEPANEL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

(in Canadian dollars)

	January 31, 2000 $	January 31, 1999 $	January 31 1998 $
Revenue	2,838,277	6,062,855	9,577,246
Expenses			
Manufacturing	1,944,707	3,539,069	6,790,874
Selling, general and administration	3,405,257	4,455,656	5,429,733
Research and development	910,151	1,014,838	920,677
Amortization of debenture discount (note 7)	314,048	-	553,837
Depreciation of capital assets	94,814	115,815	133,467
Debenture interest	743,508	609,405	462,359
Other interest	1,096,872	565,374	112,814
	8,509,357	10,300,157	14,403,761
Loss from operations before the undernoted items	(5,671,080)	(4,237,302)	(4,826,515)
Interest and other income	-	277,152	234,219
Gain on modification of debenture terms (note 7)	479,863	-	-
Merger combination and financing costs expensed	-	-	(1,884,607)
Additional amortization of debenture discount (note 7)	-	-	(2,047,387)
Equity in loss in Telepanel Europe S.A. - net of a dilution gain in 1998 of $170,200	-	(436,887)	(433,777)
	479,863	(159,735)	(4,131,552)
Loss for the year	(5,191,217)	(4,397,037)	(8,958,067)
Issuance of shares with respect to exercise of options (note 8)	-	-	(450,570)
Deficit - Beginning of year	(41,322,746)	(36,925,709)	(27,517,072)
Deficit - End of year	(46,513,963)	(41,322,746)	(36,925,709)
Loss per common share	(0.28)	(0.24)	(0.50)

See accompanying notes to financial statements.

TELEPANEL SYSTEMS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in Canadian dollars)

	January 31, 2000 $	January 31, 1999 $	January 31, 1998 $
Cash provided by (used in)			
Operating activities			
Loss for the year	(5,191,217)	(4,397,037)	(8,958,067)
Items not requiring a current outlay of cash			
Depreciation and amortization, net	375,862	115,815	2,734,691
Common shares issued for services	553,936	209,900	421,093
Amortization of warrants issued for indebtedness financing	768,200	201,000	-
Equity loss in Telepanel Europe S.A.	-	436,887	603,977
Interest accrued on debentures	653,475	434,446	-
Gain on modification of debenture terms	(479,863)	-	-
Dilution gain on equity investment in Telepanel Europe S.A.	-	-	(170,200)
Change in non-cash working capital (note 10)	1,091,691	1,740,614	1,620,937
	(2,227,916)	(1,258,375)	(3,747,569)
Financing activities			
Issuance of common shares	288,502	15,498	316,900
Other indebtedness	1,000,000	(620,868)	(364,588)
Issuance of debentures	604,833	-	2,778,515
	1,893,335	(605,370)	2,730,827
Investing activities			
Equity investment in Telepanel Europe S.A.	-	-	(593,096)
Purchase of capital assets - net	(35,522)	(21,927)	(56,682)
	(35,522)	(21,927)	(649,778)
Decrease in cash during the year	(370,103)	(1,885,672)	(1,666,520)
Cash and cash equivalents - Beginning of year	391,625	2,277,297	3,943,817
Cash and cash equivalents - End of year	21,522	391,625	2,277,297
Supplemental information			
Interest paid	-	660,121	507,068

See accompanying notes to financial statements.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1 Nature of operations and financial condition

Telepanel Systems Inc. is a developer, manufacturer and supplier of an electronic shelf pricing and information system for use in the retail industry and, in particular, the supermarket industry. The system enables supermarkets to change product pricing at the shelf by the use of a central computer and radio frequency communications technology. The Company's sales are in Canada, principally in the north-eastern and central United States and in continental Europe and capital assets are principally in Canada.

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its obligations in the normal course of operations.

The application of the going concern concept is dependent upon the Company receiving the continued support of its lenders and other creditors, its ability to comply with existing operating loans and debenture covenants (which were subsequently waived by the debenture holders as set out in note 7), its ability to secure additional financing and its ability to generate future positive cash flow. Subsequent to the year-end, the Company completed the issuance of special warrants (note 16) and is pursuing additional capital resources, however, there are no assurances that management can obtain additional financing. Management believes the going concern assumption to be appropriate; if the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, reported revenues and expenses and in balance sheet classifications used.

2 General and summary of significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with accounting policies generally accepted in Canada, which, except as described in note 15, conform in all material respects to accounting policies generally accepted in the United States. The principal accounting policies followed by the Company, which have been consistently applied, are summarized as follows:

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 the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of financial statement presentation

The financial statements of the Company's wholly owned subsidiary are consolidated. All significant intercompany balances and transactions have been eliminated upon consolidation. Telepanel Europe S.A., an entity not controlled by the Company but over which it has the ability to exercise significant influence, was liquidated in fiscal 2000 and was previously accounted for using the equity method.

Cash and cash equivalents

The Company considers all highly liquid debt investments purchased with a maturity of three months or less to be cash equivalents.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Inventories

Inventories are valued at the lower of cost (determined using the first-in, first-out method) and net realizable value. The cost of work-in-progress and finished goods includes the cost of raw materials, direct labour and related overhead expenses.

Capital assets

Capital assets are recorded at cost. Depreciation is calculated on a declining balance basis over the estimated useful lives of the assets at the following annual rates:

Computer equipment	30%
Furniture and equipment	20%

Maintenance and repair costs are expensed as incurred.

Deferred financing charge and unamortized financing costs

The carrying values assigned to the warrants issued and the conversion thereof with respect to the Company's debentures are amortized on a straight-line basis over the terms to maturity of the respective debenture.

Deferred revenue

Deferred revenue related to the Company's licence and marketing agreement (note 11) is amortized to operations on a straight-line basis over four years.

Revenue recognition

Revenue from the sale of products is recognized at the time the Company has completed its contractual commitment with respect to a particular sale.

Income taxes

The Company and its wholly-owned subsidiary use the deferral method of accounting for income taxes.

Financial instruments

Financial instruments are initially recorded at historical cost. If subsequent circumstances indicate that a decline in the fair value of a financial asset is other than temporary, the financial asset is written down to its fair value. Fair value estimates are made at a specific point in time, based on relevant market information and information about the respective financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Unless otherwise indicated, the fair values of financial instruments approximate their recorded amounts.

The estimated fair values of the Company's cash and cash equivalents, accounts receivable, other indebtedness, accounts payable and accrued liabilities and deposits on sales contracts approximate their carrying values because of their relatively short-term maturities. The fair value of the Company's debentures is estimated using discounted cash flow analysis, based on the Company's current incremental rates for similar types of borrowing arrangements.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Translation of foreign currencies

Amounts denominated in foreign currencies are translated as follows: monetary assets and liabilities are translated at year-end exchange rates; all other assets and liabilities are translated at the exchange rates prevailing on the transaction dates and income and expenses are translated at the average exchange rates for the years. Foreign exchange gains and losses are reflected in the consolidated statements of operations.

Monetary items of the Company’s wholly-owned European subsidiary representing an integrated operation are translated at year-end exchange rates, non-monetary items at historical exchange rates and revenues and expenses at weighted average exchange rates for the period during which they are earned or incurred with the exception of depreciation which is translated at historical exchange rates. Gains or losses on translation are reflected in the consolidated statement of operations.

Research and development costs

Research costs are expensed in the period in which they are incurred. Development costs are expensed in the period incurred unless such costs meet the criteria for deferral and amortization under generally accepted accounting principles. No development costs have been deferred to date.

Stock options

Stock options are recorded using the intrinsic value method.

Statement of cash flows

The Company has adopted the new recommendations of the CICA Handbook section on cash flow statements. Under this new standard, investing and financing activities that do not require the receipt or use of cash are excluded from the statement of cash flows and disclosed separately.

3 Inventories

	January 31, 2000 $	January 31, 1999 $
Raw materials	532,768	626,990
Work-in-progress	28,883	68,663
Finished goods	758,583	1,144,593
Deposits on purchases	46,790	24,492
	1,367,024	1,864,738

4 Capital assets

			January 31, 2000
	Cost $	Accumulated depreciation $	Net $
Computer equipment	358,253	293,337	64,916
Furniture and equipment			
Manufacturing	1,127,371	845,488	281,883
Office	62,961	38,576	24,385
	1,548,585	1,177,401	371,184

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	January 31, 1999		
	Cost $	**Accumulated depreciation $**	**Net $**
Computer equipment	341,005	270,285	70,720
Furniture and equipment			
Manufacturing	1,127,371	775,017	352,354
Office	46,624	39,222	7,402
	1,515,000	1,084,524	430,476

5 Other indebtedness

On October 1, 1998, the Company obtained loans of $610,000 (January 31, 2000 and 1999 - $444,544) from its existing debenture holders which were due on January 1, 1999, and bear interest at the rate of 3% per month before and after maturity, payable on a monthly basis. The debenture holders were paid financing fees of $60,000 and were issued 150,000 warrants at $0.91 per share exercisable to January 1, 2001. The loans are secured by a fixed and floating charge on all assets of the Company except for intellectual property (note 11). Since the Company did not repay the loans prior to maturity, the Company issued the debenture holders an additional 725,000 warrants exercisable at $0.91 per share, and expiring on April 1, 2001. The carrying value assigned to the warrants of $201,000 was expensed in the statement of operations.

On March 31, 1999, the Company arranged financing with its existing debenture holders in the form of $1,000,000 convertible promissory notes maturing on August 31, 1999. The notes bear interest at a rate of 1% per month until June 30, 1999, payable monthly, and 3% per month, thereafter. On this date $600,000 of this facility had been advanced. On August 9, 1999, the remaining $400,000 of this facility was advanced. The notes, including accrued interest, are convertible at any time into common shares at the rate of US$1.00 per share. Since the Company did not repay these notes by specified dates, a total of 1,500,000 warrants to purchase common shares of the Company at $0.70 per share were issued to the note holders on June 30, 1999 and August 31, 1999. The carrying value assigned to these warrants of $683,000 was expensed in the statement of operations. These warrants expire two years subsequent to the issue date.

The weighted average interest rate on other indebtedness including the value assigned to the warrants of $683,000 (1999 - $201,000) for the three fiscal years ended January 31, 2000 was 96.04% (1999 - 17.12%; 1998 - 8.06%). The weighted average interest rate excluding the value assigned to the warrants was 36.33% (1999 - 11.03%)

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

6 Accounts payable and accrued liabilities

	January 31, 2000 $	January 31 1999 $
Accounts payable	656,750	415,193
Marketing accrual	876,427	1,231,693
Accrued merger combination and financing costs	644,332	944,710
Accrued payroll costs	678,450	150,000
Deferred revenue - current portion	397,540	-
Interest accrued on other indebtedness	412,385	-
Other accruals	601,679	322,989
	4,267,563	3,064,585

7 Debentures and unamortized financing costs and debt discount

	January 31, 2000 $	January 31, 1999 $
Debenture at 11.26%, due June 15, 2001, net of unamortized discount of $326,307 (1999 - $nil)	2,673,693	3,000,000
Convertible debenture at 10%, due June 30, 2001, net of unamortized conversion value in 2000 of $281,429 (1999 - $nil)	2,718,571	3,000,000
Convertible debentures at 10%, due January 2, 2002, net of unamortized conversion value of $253,079	351,754	-
	5,744,018	6,000,000

On June 15, 1995, the Company issued a $3,000,000 debenture repayable at any time before June 15, 1999, bearing interest at 11.26% per year. The debenture is secured by a fixed and floating charge on all assets of the Company except for intellectual property (note 11). The Company simultaneously issued to the debenture holder 1,200,000 warrants exercisable at $2.50 per share expiring June 15, 2000. The total consideration received for the debenture and the warrants amounted to $3,000,000. The carrying value assigned to the debenture and the warrants on June 15, 1995 was $1,475,559 and $1,373,875, respectively. The cost of issuing the debenture was $150,566.

There are certain covenants, including financial ratios, which must be complied with at each fiscal year-end. At January 31, 2000, the Company was not in compliance with these covenants. On April 28, 2000, the debenture holder agreed to waive all non-compliant debenture covenants until May 1, 2001 and on May 12, 1999, extended the maturity date of the debenture until June 15, 2001. Interest on the debenture is accrued but is not payable until the new maturity date of the debenture. In exchange for the May 12, 1999 waiver of the debenture covenants and extending the maturity date of the debenture, the Company adjusted the warrant exercise price from $2.50 to $1.50 per warrant. The carrying value assigned to the adjustment of the exercise price was $129,000. The extension of the maturity date of the debenture resulted in a gain on modification of the debenture terms of $479,863 which was recorded as a reduction in the carrying value of the debenture.

On October 6, 1997, the Company issued a $3,000,000 convertible debenture bearing interest at 10% per year. The debenture is secured by a fixed and floating charge on all assets of the Company except for intellectual property (note 11). The debenture was initially convertible at anytime, at $1 below the ten-day weighted average trading price prior to conversion, however, in no circumstances would the conversion price be less than $2.50 or greater than $4.50 per share. The Company can, in general terms, force conversion of the debenture in multiples of $1,000,000 if the weighted share price is above $4.50. The carrying value assigned to the debenture and the conversion thereof on October 6, 1997 was $1,303,912 and $1,474,603, respectively. The cost of issuing the debenture was $221,485.

There are certain covenants, including financial ratios, that must be complied with at each fiscal year-end. At January 31, 2000, the Company was not in compliance with these covenants. On April 28, 2000, the debenture holder agreed to waive all non-compliant debenture covenants until May 1, 2001 and on May 12, 1999, extended the maturity date of the debenture to June 30, 2001. Interest on the debenture is accrued but is not payable until the new maturity date of the debenture or earlier, at the option of the Company. In exchange for the May 12, 1999 waiver of the debenture covenants and extending the maturity date of the debenture, the Company adjusted the conversion price of the debenture to $1.50 per share. The carrying value assigned to the adjustment of the conversion price was $425,000.

At January 31, 1998, since the Company was not in compliance with certain of the covenants with respect to the above-noted debentures, the debentures were callable by the holders. Accordingly, the carrying amount of the debentures was stated at the principal amount due, the debentures were classified as current liabilities in the consolidated balance sheet and additional debt discount of $2,047,387 was recorded in the consolidated statement of operations for the year ended January 31, 1998.

On December 15, 1999, the Company issued convertible debentures to its existing debenture holders in the amount of $604,833 due January 2, 2002, bearing interest at 24% per annum until January 17, 2000 and 10% per annum thereafter. The debentures are convertible into common shares under certain conditions at $2.05 per share. The carrying value assigned to the debentures and the conversion thereof was $334,833 and $270,000, respectively.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8 Capital stock, warrants and other equity

Authorized and issued share capital

The Company is authorized to issue an unlimited number of preference shares, issuable in series and an unlimited number of common shares. The number of preference shares to be issued and the rights, privileges, restrictions and conditions attached to these shares shall be determined by the directors prior to issuance. The issued common shares and common share warrants are as follows:

	January 31, 2000		January 31, 1999		January 31, 1998	
	Shares	Amount $	Shares	Amount $	Shares	Amount $
Capital stock						
Balance - Beginning of year	18,230,364	30,894,613	18,048,473	30,669,215	17,630,524	29,480,652
Shares issued for cash						
Issue of shares on exercise of warrants	247,181	280,002	-	-	-	-
Issue of shares on exercise of options	5,000	8,500	7,500	15,498	133,000	316,900
Transfer from warrants to capital stock	-	106,521	-	-	-	-
Shares issued for stock appreciation rights (SAR)	-	-	-	-	131,133	450,570
Shares issued under compensation plans	242,667	253,558	124,618	145,775	153,816	421,093
Shares issued for services	200,252	300,378	49,773	64,125	-	-
Balance - End of year	18,925,464	31,843,572	18,230,364	30,894,613	18,048,473	30,669,215
Warrants						
Balance - Beginning of year		1,626,124		1,425,124		1,425,124
Warrants issued as part of other indebtedness (note 5)		683,000		201,000		-
Adjustment to warrant exercise price on debenture (note 7)		129,000		-		-
Warrants exercised		(106,521)		-		-
Warrants expired, credited to other equity		(55,578)		-		-
Balance - End of year		2,276,025		1,626,124		1,425,124
Total capital stock and warrants		34,119,597		32,520,737		32,094,339
Other equity						
Balance - Beginning of year		1,474,603		1,474,603		1,474,603
Change in conversion price of debenture (note 7)		425,000		-		-
Issuance of debentures (note 7)		270,000		-		-
Warrants expired		55,578		-		-
Balance - End of year		2,225,181		1,474,603		1,474,603

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The number of warrants exercisable are as follows:

	Number of warrants to purchase shares at $0.70 per share	Number of warrants to purchase shares at $0.91 per share	Number of warrants to purchase shares at $1.50 per share	Number of warrants to purchase shares at $3.65 per share	Total warrants	Exercise amount $
Balance - January 31, 1998	-	-	1,200,000	40,000	1,240,000	3,146,000
Issued	-	875,000	-	-	875,000	796,250
Balance - January 31, 1999	-	875,000	1,200,000	40,000	2,115,000	3,942,250
Adjustment to exercise price	-	-	-	-	-	(1,200,000)
Issued	1,500,000	-	-	-	1,500,000	1,050,000
Expired	-	-	-	(40,000)	(40,000)	(146,000)
Exercised	-	(153,847)	(93,334)	-	(247,181)	(280,002)
Balance - January 31, 2000	1,500,000	721,153	1,106,666	-	3,327,819	3,366,248

The warrants to purchase shares at $0.70, $0.91 and $1.50 per share expire on June 30, 2001 to August 31,2001, January 1, 2001 to April 1, 2001 and June 15, 2000, respectively.

The Company would issue 2,831,872 shares if the convertible promissory notes including accrued interest thereon and the convertible debentures were converted on January 31, 2000.

The Company has an incentive plan under which options to purchase common shares may be granted to its directors, officers and employees at the discretion of the Board of Directors. These options may be exercised as SARs at the option of the participants. Each option under the incentive plan, which allows for the purchase of one share, expires not later than 10 years from the date on which it was granted; however, all options granted to date have been for a three to five-year term. The option exercise price is set at the market value at the grant date.

The number of shares issuable under options and the average option prices per share are as follows:

	Shares issuable under options			Weighted average price per share		
	2000	1999	1998	2000 $	1999 $	1998 $
Shares issuable under options – Beginning of year	2,672,600	2,388,750	3,045,500	1.98	3.08	2.96
Granted	774,500	882,350	125,000	1.18	1.16	3.05
Exercised as SARs	-	-	(502,250)	-	-	2.55
Exercised for cash	(5,000)	(7,500)	(133,000)	1.70	2.07	2.38
Expired	(220,000)	(591,000)	(146,500)	2.97	5.25	3.06
Shares issuable under options – End of year	3,222,100	2,672,600	2,388,750	1.72	1.98	3.08
Options exercisable – End of year	2,585,100	2,085,600	1,750,437			

During the year ended January 31, 1998, the participants elected to surrender to the Company, options to purchase 502,250 shares and received from the Company 133,133 shares for an aggregate consideration of $450,570.

The options outstanding as at January 31, 2000 to purchase common shares are as follows:

	Options outstanding			Options exercisable	
Range of exercise prices	Number outstanding	Weighted average remaining contractual life	Weighted average exercisable price $	Number exercisable	Weighted average exercisable price $
$1.00	741,500	3.65	1.00	565,500	1.00
$1.10	726,000	4.39	1.10	432,000	1.10
$1.11 to $2.80	1,732,100	1.56	2.15	1,565,100	2.18
$4.40	22,500	2.71	4.40	22,500	4.40
	3,222,100			2,585,100	

9 Loss per common share

Loss per common share is based on the weighted average number of shares outstanding during 2000, 1999 and 1998 of 18,488,989, 18,125,604, and 17,825,619 shares, respectively.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10 Consolidated statements of cash flows

Changes in non-cash operating working capital are as follows:

	January 31, 2000 $	January 31, 1999 $	January 31, 1998 $
Decrease (increase) in current assets			
Accounts receivable	359,014	1,824,059	(2,222,307)
Inventories	497,714	1,470,108	(960,931)
Prepaid expenses	(14,324)	167,586	(167,347)
Increase (decrease) in current liabilities			
Accounts payable and accrued liabilities	1,157,852	(888,670)	3,183,840
Deposits on sales contracts	(908,565)	(832,469)	1,787,682
	1,091,691	1,740,614	1,620,937

11 Strategic alliances and revenue

On January 11, 2000, the Company entered into a Licence and Remarketing Agreement (the “Agreement”) with International Business Machines Corporation (“IBM”) for a term of four years with a right to renew for a further two years by mutual consent. IBM has the right to terminate the Agreement. The Agreement specifies that IBM pay a development fee to the Company of US$1.1 million (CAN$1,590,160) which was received by the Company subsequent to the fiscal year-end. Accounts receivable include an amount receivable from IBM of $1,237,746 as at January 31, 2000.

IBM, except for certain specified customers, has an exclusive right on a worldwide basis to market the Company’s products and its computer software programs. The Company, pursuant to the Agreement, has agreed to sell its products to IBM during the term of the Agreement at prices, which for modules depends on annual volume commitments and to share with IBM a percentage of the Company’s annual software licence fee revenue. The Company has provided to IBM pursuant to the Agreement, a security agreement that assigns, to IBM a security interest in all present and future intellectual property related to electronic shelf labelling products and technology.

Revenue	January 31, 2000 $	January 31, 1999 $	January 31, 1998 $
Export revenue from customers in the United States, which are principally in U.S. dollars	2,556,138	5,251,540	8,665,599
Sales to Telepanel Europe S.A. for customers principally located in France	-	699,335	567,458
Revenue from the Company’s European subsidiary for customers principally located in France and principally in French francs	181,970	-	-
Revenue from customers in Canada	100,169	111,980	344,189
	2,838,277	6,062,855	9,577,246

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The percentages of revenue by individual customer, that account for more than 10% of revenue, are as follows:

	Percentage by customer		
	First customer	**Second customer**	**Third customer**
	%	**%**	**%**
Year ended January 31			
2000	21.70	20.42	15.33
1999	38.37	18.87	-
1998	44.90	15.36	-

12 Fair value of financial instruments

The following table summarizes the carrying amount and estimated fair values of the Company's financial instruments:

	January 31, 2000		**January 31, 1999**	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
	$	**$**	**$**	**$**
Cash and cash equivalents	21,522	21,522	391,625	391,625
Accounts receivable	1,750,208	1,750,208	871,476	871,476
Other indebtedness	1,444,544	1,444,544	444,544	444,544
Accounts payable and accrued liabilities	4,267,563	4,267,563	3,499,031	3,499,031
Deposits on sales contracts	46,648	46,648	955,213	955,213
Accrued interest on debentures	1,087,921	832,000	434,446	274,000
Debentures	5,744,018	5,744,018	6,000,000	4,450,000

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

13 Income taxes

As at January 31, 2000, the Company has losses available to be carried forward for income tax purposes amounting to approximately $21,542,000 that can be applied against future taxable income. These losses expire as follows:

	$
2001	2,524,000
2002	2,556,000
2003	3,517,000
2004	3,087,000
2005	3,439,000
2006	2,930,000
2007	3,489,000
	21,542,000

As at January 31, 2000, the Company has unclaimed research and development expenditures amounting to approximately $8,369,000 that can be applied to reduce future taxable income and are not subject to expiry.

The tax benefit of the losses carried forward and unclaimed research and development expenditures have not been recorded in the consolidated financial statements.

A reconciliation of the income tax recovery at the combined federal and provincial taxation rate to the provision for income taxes is set out below:

	Year ended January 31,		
	2000	**1999**	**1998**
	$	**$**	**$**
Loss for the year	(5,191,217)	(4,397,037)	(8,958,067)
Combined federal and provincial taxation rate	44.6%	44.6%	44.6%
Income tax recovery at combined federal and provincial taxation rate	(2,315,000)	(1,961,000)	(3,995,000)
Manufacturing and processing rate reduction	100,000	110,000	212,000
Effect of subsidiary Company loss at lower tax rate	-	13,000	10,000
Non deductibility of equity loss and expenses, net of modification gain	273,000	294,000	1,253,000
Tax benefit of loss not recorded	1,942,000	1,544,000	2,520,000
Provision for income taxes	-	-	-

14 Rental expense

Rental expense for the years ended January 31, 2000, 1999 and 1998 are approximately $128,000, $124,000 and $110,000, respectively.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15 Reconciliation to United States generally accepted accounting principles

Reconciliation of loss determined in accordance with generally accepted accounting principles in Canada (Canadian GAAP) to loss determined under accounting principles that are generally accepted in the United States (U.S. GAAP) is as follows:

	January 31, 2000 $	January 31, 1999 $	January 31, 1998 $
Loss for the year - as reported	(5,191,217)	(4,397,037)	(8,958,067)
Compensation benefit (cost) for options (i)	(2,509,772)	131,072	(971,149)
Loss for the year in accordance with United States accounting principles	(7,700,989)	(4,265,965)	(9,929,216)
Basic and fully-diluted loss per share in accordance with United States accounting principles (ii), (iii)	(0.42)	(0.24)	(0.56)

(i) Under Canadian GAAP, the Company accounts for the cost of options exercised as SARs as a charge to deficit. Under U.S. GAAP, the compensation costs for options with related SARs is accrued over the vesting period based on the difference between the quoted market value at the grant date and the exercise price and adjusted for changes in the quoted market value of the stock in subsequent periods.

(ii) The basic and fully diluted loss per share excludes the exercise of all issued warrants and the conversion features of other indebtedness and debentures.

(iii) Under U.S. GAAP the gain on modification of the debenture terms would be an extraordinary item. Accordingly, the loss before extraordinary item would be $8,180,852 and the basic and fully-diluted loss per share would be $0.44.

On October 6, 1997, the Company issued a convertible debenture as described in note 7. Under Canadian GAAP, the proceeds have been allocated between the debenture and other equity, based on the fair value of its conversion feature. Under U.S. GAAP, the proceeds would be allocated between the debenture and other equity based on the intrinsic value of the conversion feature. Accordingly, under U.S. GAAP, the debenture would be recorded at $2,096,386 and other equity at $903,614. Canadian GAAP requires that the resulting discount on the debenture be amortized over the term of the debenture whereas U.S. GAAP requires the amount to be amortized over the period to the earliest exercise date. This would have increased the amortization of the debenture discount under U.S. GAAP by $730,887 for the year ended January 31, 1998 before the expensing of the additional amortization of the debenture discount (note 7).

On October 7, 1993, the shareholders approved a resolution to reduce the deficit and capital stock of the Company by $9,052,137. U.S. GAAP does not allow such a reduction in capital stock. Accordingly, capital stock and deficit of the Company would be $9,052,137 greater under United States accounting principles for each of the years presented.

Under U.S. GAAP the debentures, excluding the debenture issued in the year ended January 31, 2000, would continue to be classified as a current liability.

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (FAS 109), requires the liability method under which temporary differences are tax effected at current rates, whereas under Canadian GAAP, timing differences are tax effected at the rates in effect when they arise.

The deferred tax asset consists of:

	January 31, 2000 $	January 31, 1999 $	January 31, 1998 $
Net operating loss carry-forwards	9,705,000	7,669,000	7,350,000
Unclaimed research and development costs	3,734,000	3,198,000	2,858,000
Investment tax credits	1,275,000	1,052,000	1,054,000
Other	362,000	353,000	338,000
	15,076,000	12,272,000	11,600,000
Less: Valuation allowance	(15,076,000)	(12,272,000)	(11,600,000)
	-	-	-

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, *Accounting for Derivatives and Hedging Activities.* This statement establishes a comprehensive standard on accounting for derivatives and hedging. The Company does not engage in derivative and hedging activities.

16 Comparative figures

Certain comparative figures have been reclassified to conform with the basis of presentation adopted in the current year.

17 Subsequent events

(a) On April 5, 2000, the Company completed a sale of 1,515,152 special warrants at $3.30 per special warrant for gross proceeds of $5,000,000 ($4,650,000 net of agent’s commission). Each special warrant is convertible into one common share and one half purchase warrant. The purchase warrant allows the purchaser to acquire an additional common share for $4.00 per share until April 5, 2002. The special warrants were subscribed for on a private placement basis and the Company is required to file a prospectus requiring a final receipt for the prospectus by August 3, 2000. If the final receipt is not received by this date, the holder of 45,500 special warrants will be entitled to receive upon exercise 1.1 common shares (in lieu of one common share) and 0.55 purchase warrant (in lieu of one-half purchase warrant).

In addition, the Agents were granted 151,515 special broker warrants to acquire at any time up to five days after the final receipt for the prospectus, for no additional consideration, 151,515 broker warrants. Each broker warrant entitles the holder to purchase one common share and one half of a broker purchase warrant at a purchase price of $4.00 up to April 5, 2002. Each broker purchase warrant allows the holder to acquire an additional common share for $4.00 per share until April 5, 2002.

(b) On August 2, 2000, the Company filed a prospectus to qualify for issuance the 1,515,152 common shares and 757,576 purchase warrants upon the exercise of 1,515,152 special warrants referred to in Note 17(a).

TELEPANEL SYSTEMS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

CERTIFICATE OF THE COMPANY

Dated: August 2, 2000

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) and the regulations thereunder.

"Christopher R. Skillen"
Name: Christopher R. Skillen
President and Chief Executive Officer

"Gregory P. Miller"
Name: Gregory P. Miller
Acting Chief Financial Officer

On behalf of the Board of Directors

"Joseph Riz"
Name: Joseph Riz
Director

"Barry J. Reiter"
Name: Barry J. Reiter
Director

CERTIFICATE OF THE AGENTS

Dated: August 2, 2000

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) and the regulations thereunder.

CANACCORD CAPITAL CORPORATION	**PARADIGM CAPITAL INC.**
"Derek Webb"	*"John M. Warwick"*