

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.

INITIAL PUBLIC OFFERING

DATED: June 26, 2000

PROSPECTUS

CST COLDSWITCH TECHNOLOGIES INC.

(the "Company" or "CST")
250 - 13155 Delf Place
Richmond, British Columbia
V6V 2A2

Telephone: (604) 275-6866
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INDUSTRIAL ISSUER

4,000,000 common shares @ \$1.00 per common share (the "Shares")

TOTAL OFFERING: \$4,000,000

The Canadian Venture Exchange (the "Exchange") has conditionally accepted the Company's application for the listing of the common shares (the "Common Shares") being offered under this prospectus (the "Prospectus"). The listing will be subject to the Company fulfilling all of the listing requirements for the Exchange, including prescribed distribution and financial requirements, on or before September 25, 2000. All references to currency in this Prospectus are to Canadian dollars, unless otherwise noted.

	Price to Public ⁽¹⁾	Agent's Commission ⁽²⁾⁽³⁾	Net Proceeds to Company ⁽⁴⁾⁽⁵⁾
Per Share	\$1.00	\$0.075	\$0.925
Offering	\$4,000,000	\$300,000	\$3,700,000

⁽¹⁾ The price of the Shares offered herein has been established by negotiation between the Company and Canaccord Capital Corporation (the "Agent").

⁽²⁾ The Agent will receive a cash commission (the "Agent's Commission") of 7.5% of the gross proceeds of the offering, including any Shares sold pursuant to the Greenshoe Option (as defined below).

⁽³⁾ In addition to the Agent's Commission, the Company will issue to the Agent a non-transferable common share purchase warrant (the "Agent's Warrant") to acquire such number of Common Shares (the "Agent's Warrant Shares") as is equal to 20% of the Shares issued under the offering for a period of two years from the date (the "Listing Date") the Common Shares are listed and commence trading on the Exchange at a price of \$1.00 per Agent's Warrant Share. This Prospectus qualifies the issuance of the Agent's Warrant. The Agent has been paid a sponsorship and administration fee of \$15,000 plus GST in connection with the sponsorship of the Company on the Exchange. Refer to "Plan of Distribution."

⁽⁴⁾ The Company will pay the estimated Offering expenses of \$90,000 out of the gross proceeds of the offering. Refer to "Use of Proceeds."

⁽⁵⁾ The Company has granted the Agent an option (the "Greenshoe Option") to purchase up to an additional 600,000 Common Shares at a price of \$1.00 per Common Share, to cover over-allotments, if any. This Prospectus qualifies the Greenshoe Option. Refer to "Plan of Distribution".

Upon completion of the Offering, assuming that the Agent's Warrant and Greenshoe Option are not exercised, this issue will represent 27.90% of the Common Shares then outstanding, as compared to 37.61% that will then be owned by promoters, insiders, holders of escrow shares and the Agent as a group. The Company also owns indirectly 1,400,000 of its own Common Shares representing 9.76% of the Common Shares then outstanding. Refer to "Share Capital".

THIS PROSPECTUS QUALIFIES THE ISSUANCE OF THE SHARES, THE AGENT'S WARRANT AND THE GREENSHOE OPTION. REFER TO "PLAN OF DISTRIBUTION".

AN INVESTMENT IN THE SHARES SHOULD BE CONSIDERED HIGHLY SPECULATIVE GIVEN THE NATURE OF THE COMPANY'S BUSINESS AND THE STAGE OF ITS DEVELOPMENT. INVESTMENTS IN SMALL BUSINESSES INVOLVE A HIGH DEGREE OF RISK AND INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. REFER TO "RISK FACTORS".

NO PERSON IS AUTHORIZED BY THE COMPANY TO PROVIDE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE ISSUE AND SALE OF THE SHARES OFFERED HEREUNDER.

THERE IS CURRENTLY NO MARKET FOR THE COMPANY'S SECURITIES NOR IS THERE ANY ORGANIZED MARKET THROUGH WHICH THE SECURITIES MAY BE SOLD.

The Agent, conditionally offers to the public, subject to prior sale, the Shares offered hereby if, as and when issued by the Company and accepted by the Agent in accordance with the conditions contained in the Agency Agreement referred to under "Plan of Distribution" and subject to the approval of all legal matters on behalf of the Company by Catalyst Corporate Finance Lawyers, and on behalf of the Agent by Swinton & Company.

CANACCORD CAPITAL CORPORATION

P.O. Box 10337 Pacific Centre
2200 – 609 Granville Street
Vancouver, BC V7Y 1H2

TABLE OF CONTENTS

<u>Item</u>	<u>Page No.</u>
SUMMARY	1
GLOSSARY	1
THE COMPANY	2
Name and Incorporation	2
Intercorporate Relationships	2
BUSINESS OF THE COMPANY	3
History of the Company	3
Acquisitions and Dispositions	3
Platform Technology	4
Business Strategy	4
Products	5
Future Product Developments	8
Research and Development Projects	9
Proprietary Protection	9
Operations	10
Production	10
Market Size and Trends	10
Marketing Strategy	11
Distribution	13
Independent Product Evaluation	13
Competition	14
Other Financing: Private Placement	14
Summary and Analysis of Financial Operations	15
Management's Discussion and Analysis	16
Liquidity and Capital Resources	16
Business Objectives	16
Milestones	17
Management and Employees	18
Organizational Structure	19
ADMINISTRATION	20
USE OF PROCEEDS	20
Funds Available	20
Nature of Projects to be Financed	20
Principal Purposes	21
RISK FACTORS	21
DIRECTORS, OFFICERS AND PROMOTERS	25
INDEBTEDNESS OF DIRECTORS, OFFICERS AND PROMOTERS	28
PAYMENTS TO INSIDERS AND PROMOTERS	28
Executive Compensation	28
Summary of Compensation	29
Related Party Transactions	31
Proposed Compensation	31
SHARE CAPITAL	32
Authorized Capital	32

Description of the Common Shares.....	32
Existing and Proposed Share Capital.....	33
Seed Share Resale Restrictions	34
Stock Option Plan.....	34
Options to Purchase Common Shares	36
Agent’s Warrant.....	37
Common Share Purchase Warrants	37
Fully Diluted Share Capital.....	37
Dilution	38
Principal Holders of Common Shares	38
Escrow Shares.....	39
Corporate Finance Shares.....	42
Takeover Bid Shares	42
Dividend Record	42
PLAN OF DISTRIBUTION	43
SPONSORSHIP AGREEMENT.....	44
INVESTOR RELATIONS AGREEMENTS.....	44
RELATIONSHIP BETWEEN COMPANY OR SELLING SECURITY HOLDER AND AGENT	44
RELATIONSHIP BETWEEN COMPANY AND PROFESSIONAL PERSONS	44
LEGAL PROCEEDINGS.....	44
AUDITORS	44
REGISTRAR AND TRANSFER AGENT	45
MATERIAL CONTRACTS.....	45
PURCHASER’S STATUTORY RIGHTS	45

SUMMARY

The following is a summary only and is qualified by the detailed information contained in the body of this prospectus (the "Prospectus"). Technical terms used throughout this Prospectus are capitalized and defined in the Glossary on page 1.

THE COMPANY

CST Coldswitch Technologies Inc. (the "Company") was incorporated pursuant to the Company Act (British Columbia) on September 6, 1988. The Company carries on its business through its subsidiary, LMI Lightwave Medical Industries Limited, and, as such, CST Coldswitch Technologies Inc. and LMI Lightwave Medical Industries Limited, are hereinafter collectively referred to as the "Company", unless the context otherwise requires. Refer to "The Company – Intercorporate Relationships."

BUSINESS

The Company has developed and commercialized a proprietary fibre optic switching and sensing technology (the "Technology") which uses light in optical fibres to control electrical devices. The Company's products reduce electrical problems such as electrical shocks, sparks, short-circuits and interference from or with electrical or radio signals, and permit the use of low-cost plastic optical fibre and other plastic components in the manufacture of switches, sensors and cables. The Technology is currently being used in medical applications. Management of the Company is currently adapting the Technology for use in the marine, automotive and aerospace industries. The Company's patent portfolio consists of six assigned patents, and one patent pending, all relating to the Technology. Refer to "Business of the Company".

The Company has one product currently in commercial production: the **LUMI touch™** optical reply pad. A second product, the **LUMITROL™** electrosurgical pencil, has been cleared by the U.S. Food and Drug Administration for sale in the United States, and the management of the Company anticipates that it will be ready for commercial production upon construction of the Company's production facility scheduled for the fourth quarter of 2000. Refer to "Business of the Company." The **LUMITOUCH™** has been sold to hospitals and research facilities in Canada, the United States and Europe and all revenues have been treated as recoveries of research and development costs. Customers include Columbia University in New York, NY, California Institute of Technology in San Francisco, CA, McMaster University in Hamilton, ON, Massachusetts General Hospital in Boston, MA, and the University of Mainz, Germany. The Company has a five-year conditional purchase order from the Vancouver Hospital and Health Sciences Centre ("Vancouver Hospital") and has distribution contracts with companies in the Pacific Northwest and California for its **LUMITROL™** electrosurgical pencil.

OFFERING

The offering (the "Offering") consists of 4,000,000 common shares (the "Shares") in the capital of the Company to be offered to the public by Canaccord Capital Corporation (the "Agent") at a price of \$1.00 per Share for aggregate net proceeds of \$3,700,000, assuming that the Agent's Warrant and the Greenshoe Option are not exercised (after payment of the Agent's Commission).

USE OF PROCEEDS

The funds that will be available to the Company upon the completion of the Offering assuming that the Agent's Warrant and the Greenshoe Option are not exercised, will consist of:

Description of Funds Available	Offering
Offering expenses	\$ 90,000
Purchase of Capital Assets: ⁽¹⁾	
Automated machinery	\$ 1,145,000
Production Moulds ⁽⁶⁾	260,000
Infrastructure ⁽⁷⁾	45,000
Contingency	<u>75,500</u>
Inventory of 15,000 finished LUMIVAC electrosurgical pencils	1,525,500
Research and Development: ⁽²⁾	105,000
LUMIVAC ⁽⁸⁾	120,000
Pulse Oximeter	37,500
Assembly Systems ⁽²⁾	120,000
Base Optical Control Technology ⁽³⁾	205,000
	485,175
Marketing ⁽⁴⁾	535,175
General and administrative ⁽⁵⁾	749,544
Working capital to fund ongoing operations	128,022
TOTAL:	<u>\$ 3,565,741</u>

⁽¹⁾ Refer to "Business of the Company - Production".

⁽²⁾ Refer to "Business of the Company - Milestones".

⁽³⁾ Refer to "Business of the Company - Research and Development Projects".

⁽⁴⁾ Refer to "Business of the Company - Marketing Strategy" and "Business of the Company - Milestones".

⁽⁵⁾ Refer to "Business of the Company Administration".

⁽⁶⁾ Refer to "Business of the Company - Milestones".

⁽⁷⁾ Refer to "Business of the Company - Milestones".

⁽⁸⁾ Refer to "Business of the Company - Future Product Developments".

Refer to "Use of Proceeds."

BUSINESS OBJECTIVES

Over the twelve-month period following the completion of the Offering, it is the Company's objective to:

- automate production of its electrosurgical pencil products;
- establish distribution and marketing of the Company's medical products in North America and Europe;
- continue to develop proprietary products using the Company's optical switching and sensing technology for use in new industries; and
- enter into long term agreements with industrial partners for the development and sale of the Company's products.

RISK FACTORS

An investment in the Shares is subject to certain significant risk factors and should be considered highly speculative. These risk factors include: reliance upon management; product liability; early stage of development of the products of the Company; market acceptance; intellectual property; additional management requirements; exchange rate fluctuations; no assurance of a liquid public market; customer confidence; control by management; dilution; competition; regulatory requirements and additional financing requirements. See "Risk Factors."

GLOSSARY

In this Prospectus, the following technical terms have the meanings set forth below:

cauterization	the formulation of a blood clot through the application of heat to tissue; used as an equivalent for “coagulation.”
electrosurgery	the cutting or coagulation of tissue through the application of high frequency electrical current.
EMI	electromagnetic interference. The interference or failure of electrical signals caused by magnetic fields generated by the passage of nearby electrical currents.
fibre optic	a thin fibre of glass or plastic which is internally transparent and allows the transmission of light.
fMRI	functional Magnetic Resonance Imaging involves the correlation of stimuli with brain function, enabling a researcher or clinician to map the physical characteristics of the brain that correspond with these stimuli-responses.
MRI	A non-invasive imaging of the tissues by applications of intense magnetic radiation.
opto-electric	a device which converts light to electrical energy or vice versa.
photonic	the technology of generating and using light and other forms of radiant energy whose basic unit is the photon.
pulse oximeter	a non-invasive means of continuously monitoring oxygenation in the blood.
RF	radio frequency interference. The interference or failure of electrical signals caused by radio frequencies emanating from electrical equipment.

THE COMPANY

Name and Incorporation

CST Coldswitch Technologies Inc. was incorporated pursuant to the provisions of the Company Act (British Columbia) on September 6, 1988.

As at the date of incorporation, the authorized share capital of CST consisted of 1,501,000 shares divided into 500,000 Class “A” non-voting participating common shares without par value; 1,000 Class “B” voting common shares without par value; and 1,000,000 Class “C” non-voting redeemable preferred shares with a par value of \$1.00 each. On May 11, 1990, the authorized capital of the Company was increased to 3,000,000 shares, divided into 1,000,000 Class “A” non-voting participating common shares without par value; 1,000,000 Class “B” voting common shares without par value; and 1,000,000 Class “C” non-voting redeemable preferred shares with a par value of \$1.00 each. On March 17, 1994, the authorized capital of the Company was increased to 21,000,000 shares divided into 20,000,000 Class “B” voting common shares without par value and 1,000,000 Class “C” non-voting redeemable preferred shares with a par value of \$1.00 each. On April 19, 1999, the Class “C” common shares, of which none had been issued, were cancelled, the Class “B” voting common shares without par value were redesignated as common shares without par value and split on a two-for-one basis, and the authorized capital of the Company was increased to 100,000,000 common shares (the “Common Shares”) without par value.

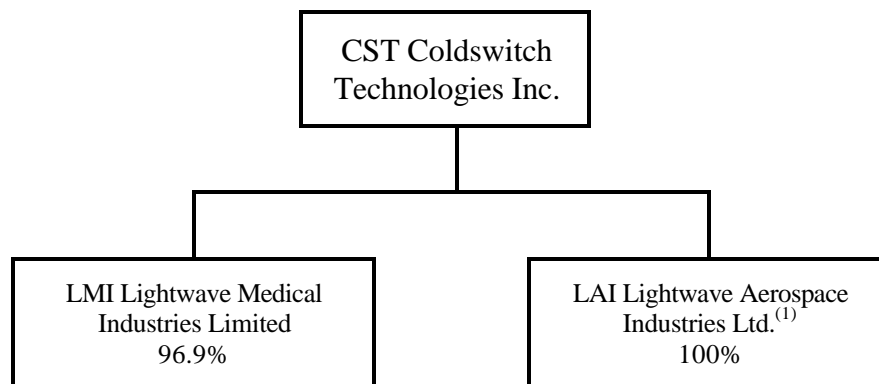
The Company’s principal place of business is located at #250 - 13155 Delf Place, Richmond, British Columbia, V6V 2A2 and the registered and records office of the Company is located at 1100 – 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

Intercorporate Relationships

CST directly owns or has control over two subsidiaries as follows:

1. LMI Lightwave Medical Industries Limited (“LMI”) was incorporated pursuant to the provisions of the Company Act (British Columbia) on September 12, 1991. The Company currently owns 96.9% of the issued and outstanding shares of LMI. Refer to “Use of Proceeds – Acquisitions and Dispositions” and “Use of Proceeds – History of the Company.”
2. The Company owns 100% of LAI Lightwave Aerospace Industries Ltd. (“LAI”), which was incorporated pursuant to the provisions of the Company Act (British Columbia) on January 19, 1990.

The organizational structure of the Company is as follows:



(1) LAI Lightwave Aerospace Industries Ltd. is an inactive, non-operating subsidiary of the Company.

BUSINESS OF THE COMPANY

History of the Company

The Company was incorporated on September 6, 1988 to develop products which incorporate switches and sensors made from plastic optical fibres and low-cost plastic components, based on core technology owned and developed by the Company. The technology was licensed to the Company from CST Coldswitch Holdings Inc. on May 11, 1990 and acquired by the Company on May 9, 1995 from CST Coldswitch Holdings Inc., of which John S. Kidder, the President and Chief Executive Officer of the Company, was the major shareholder. Refer to “Directors, Officers and Promoters”. The technology consisted of three patents filed with respect to the self-illuminating Fibre Optic switch and single Fibre Optic switch. Refer to “Business of the Company – Proprietary Protection”. The Company assumed the responsibility for the payment of the outstanding legal fees in respect of the patents as consideration for the acquisition of the technology from CST Coldswitch Holdings Inc. From 1988 to the date of this Prospectus, the Company has completed development of the core technology for its initial medical applications, has received ISO-9001 certification for quality control and documentation, and has received clearance from the United States Food and Drug Administration (“FDA”) for its first medical product. Refer to “Business of the Company – Overview of the Company’s Products - **LUMITROL™** Electrosurgical Pencil.”

LMI was incorporated on September 12, 1991. Pursuant to a license agreement between the Company and LMI dated September 12, 1991, LMI agreed to develop the medical applications of the Company’s platform technology. At that time, CST owned 100% of LMI. To finance LMI’s development, LMI issued common shares for gross proceeds of \$3,867,482 which diluted CST’s interest in LMI from 100% to 15.6%. On October 29, 1999, CST made an offer by way of a Takeover Bid Circular to all LMI shareholders to acquire all the issued and outstanding shares of LMI not owned by CST. As a result of this takeover bid, CST presently owns 12,018,094 common shares of LMI or 96.9% of the 12,400,489 issued and outstanding common shares of LMI. Pursuant to the terms of the Takeover Bid Circular the common shares of LMI that were exchanged for Common Shares are subject to pooling restriction. Refer to “Share Capital – Takeover Bid Shares.” As of June 9, 2000, LMI is a directly controlled subsidiary of the Company. The Company intends to acquire the remaining 3.1% of the shares of LMI through the compulsory acquisition procedures set out in the Company Act (British Columbia) and will issue an additional 95,599 Common Shares as reflected in the attached financial statements.

Acquisitions and Dispositions

As stated above, on October 29, 1999, CST made a takeover bid to all LMI shareholders to acquire all the issued and outstanding shares of LMI not owned by the Company. The offer was made by way of a Takeover Bid Circular to the LMI shareholders, offering the exchange of one Common Share of CST for each four common shares of LMI tendered. The Takeover Bid share ratio was determined through negotiations between outside directors of LMI, outside directors of the Company, the Chief Financial Officer of the Company and from advice received from the Agent. As a result of this takeover bid, the Company presently owns 12,018,094 common shares of LMI or 96.9% of the 12,400,489 issued and outstanding common shares of LMI. The Company has issued a total of 2,270,076 Common Shares to acquire the tendered LMI common shares. As of March 10, LMI is a directly controlled subsidiary of the Company. The Company intends to acquire the remaining 3.1% of the shares of LMI through the compulsory acquisition procedures set out in the Company Act (British Columbia) and will issue an additional 95,599 Common Shares as reflected in the attached financial statements.

Pursuant to Purchase and Sale Agreements between the Company and each of John Kidder, Leanne Edwards and Donna Moroz, the Company acquired all of the issued and outstanding shares of CST Coldswitch Holdings Ltd. in exchange for the issuance of 1,400,000 Common Shares. As a result of the transaction, the Company owns all of the issued and outstanding shares of CST Coldswitch Holdings Inc., which in turn owns 1,400,000 Common Shares. Refer to “Escrow Shares”.

Platform Technology

The Company has developed a proprietary system of optical switches and sensors for managing light within plastic optical fibres to control electrical loads and instruments (the “Technology”). The basic components of the Company’s Fibre Optic switches and sensors are a single plastic optical fibre and a small section of plastic film. Light signals are carried through the fibre to the switch or sensor, where other plastic parts control or change the light signal and modify and/or reflect the light back through the fibre to a converter which interprets the light signal and generates a corresponding electrical signal to control any electrical device according to the status of the sensor.

Management of the Company believes that the Technology provides the following safety and performance advantages over electrical switch systems:

- optical switches do not present any hazards common with electrical equipment, such as spark, shock or short circuits, and are therefore safe in hazardous environments and explosive atmospheres, as there is no potential for shock or explosion;
- optical signals are not affected by external interference (EMI or RF). The Technology can be used in electrical and radio-frequency environments where electrical switches and leads are not permitted;
- the Company’s optical switches are durable and weather resistant, and are inherently free from potential short circuits from fluids;
- plastic optical fibre is flexible and resilient, and simple cable assemblies protect against physical damage, reducing requirements for electrical conduits and cable raceways;
- a number of electrical failure modes, breakdown risks and maintenance costs posed by electrical switches may be eliminated by the Company’s products, and continuous system diagnosis is made possible because light is always present throughout a functioning system;
- electrical contact “bounce”, wear and corrosion are eliminated;
- “crosstalk” or inductive coupling, whereby a signal in one wire might be affected by another, is eliminated; and
- several separate signals can be carried on a single Fibre Optic conductor.

The Technology is the basis for mass-manufacturable optical switches made of inexpensive and robust components: completely optical switches, status indicators, and panel and switch illumination. All structural, mechanical and optical functions are combined in a few pieces of injection moulded plastic, colour filters and plastic optical fibre. Replacement of electrical switches with the Technology is expected to reduce the number of components as well as material and assembly costs, and to reduce the need for various associated materials like conduits and other enclosures. Fibre is less expensive than wire, and plastic connectors and switching components are less expensive than electrical equivalents. Management of the Company anticipates that the utilization of the Technology, in a disposable surgical instrument, will reduce the cost of manufacturing the **LUMITROL™** pencil as compared to the costs of a comparable electrically switched product by about 50% by reducing wire and component cost. In addition, assembly may be automated which may reduce costs further.

Business Strategy

In the 12 month period following the closing of this Offering, the Company intends to automate the production of two electrosurgical products and to advance development of a Photonic Pulse Oximeter lead. The electrosurgical products will initially be marketed by the Company through selected medical instrument distributors. Within 18 months following the closing of this Offering, the Company hopes to establish a strategic partnership with a major United States medical company for national distribution and sales. In addition, the Company plans to continue sales

of its Fibre Optic keypad to well-recognized research institutions, to build a strong customer base for future products in the MRI marketplace. Also in the 12 month period following the closing of the Offering, the Company intends to accelerate market research and prototype development of optical switches, sensors and control display panels for the hazardous environments, aerospace and automotive switching markets. In addition, the Company intends to increase its intellectual property portfolio by filing new patents, industrial designs and trademarks.

The Company also intends to enhance business relationships with companies in the aerospace, automotive, petrochemical and housing industries, and to generate an updated database about technical needs, market demands and distribution channels. The Company intends to build prototypes of optical switches, sensors and control display panels for these applications, and to close a partnership with at least one major user or supplier.

Products

Overview of The Company's Products

The Company's selection criteria for the commercialization of its products are enhanced performance and improved safety and efficiency, at costs lower than electrical products. For the past six years, the Company, through LMI, has focused on the application of the Technology in medical device products. LMI has developed two key products:

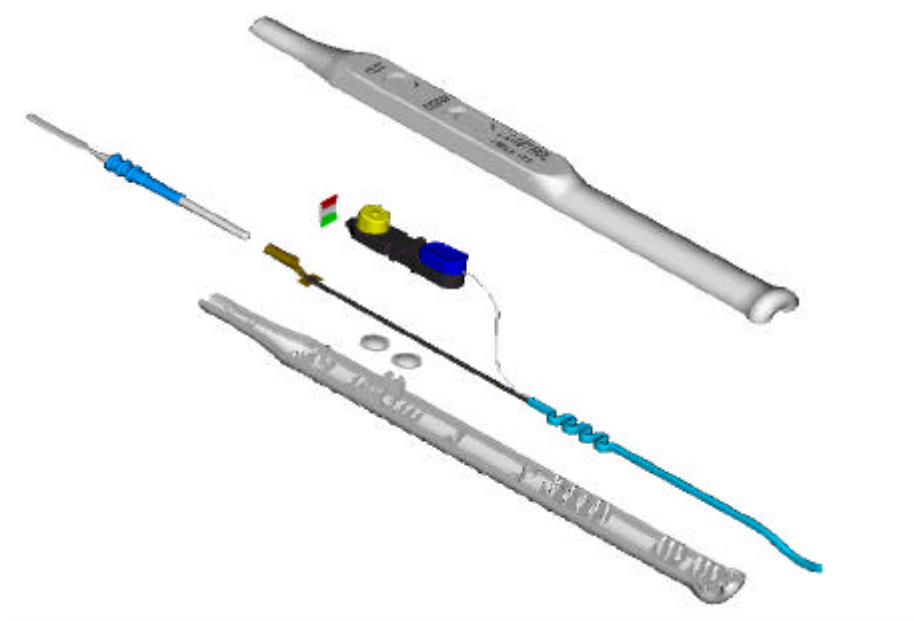
- **LUMITROL™** Electrosurgical Pencil; and
- **LUMItouch™** Optical Reply Pad

LUMITROL™ Electrosurgical Pencil

The **LUMITROL™** disposable electrosurgical pencil is a handswitched disposable surgical pencil (a "Cautery Pencil") used in general surgery to cut and cauterize tissue. The **LUMITROL™** is used in a similar manner to that of a traditional scalpel. The **LUMITROL™** uses an electrical current to make an incision, and contains bleeding by varying the level of electrical power delivered to the tissue through the pencil thereby causing coagulation at the point of incision. The **LUMITROL™** is used by plugging into existing surgical equipment through a custom adapter manufactured by the Company and supplied to customers at no cost. The adapter attaches to standard connections on electrosurgical generating units ("ESU") without compromising safety or performance features. The **LUMITROL™** received United States Food and Drug Administration ("FDA") clearance in October 1995, and upon construction of the Company's intended automated assembly line in 2000, will be ready for full production.

About 1,000 **LUMITROL™** pencils have been used in surgical product trials carried out at the Royal Jubilee Hospital in Vernon, British Columbia. See "Independent Product Evaluations." Vancouver Hospital has signed a non binding letter of intent to purchase the **LUMITROL™**.

About 22 million disposable cautery pencils are used in the United States each year. The **LUMITROL™** demonstrates the ability of the Technology to reduce costs and improve performance in a very demanding and competitive high volume environment by reducing the overall number of components from approximately 27 to 13, by simplifying assembly procedures, by eliminating the risk of inadvertent activation by fluids, and by making a lighter, more comfortable hand-piece with a lighter and more flexible cable. The illustration below shows an exploded view of the **LUMITROL™**.



LUMITROL™ Electrosurgical Pencil, Exploded View

Initial facilities and tooling are in place for manual assembly of sample quantities of the **LUMITROL™**, and the Company intends to use about \$1,145,000 of the proceeds of this Offering to put in place an automated machine to assemble commercial quantities. This machine is expected to take about eight months to build, test and commission in the Company's premises. Within a period of 24 months from the closing of this Offering, the Company intends to purchase a Fibre Optic cable extrusion machine, at an approximate cost of \$370,000. The assembly machine is planned to be delivered by Pyramid Automation Inc. of Victoria, British Columbia, and the cable extrusion machine by New England Optical Fiber Inc., both of which are at arms-length to the Company. Management of the Company expects that one full time person will be required to operate the pencil machine per shift, and that the cable machine will need to run for about one quarter as long as the pencil machine, with one operator. This equipment is expected to be capable of producing one fully assembled and packaged pencil every ten seconds, or approximately 2,500,000 **LUMITROL™** or **LUMIVAC** (see below, "Future Product Developments") surgical pencils per year.

LUMItouch™ Optical Reply Pad

The **LUMItouch™** is a plastic Fibre Optic response keypad for use in fMRI. The **LUMItouch™** controls the flow of light through fibre optic cables to an Opto-Electric converter, by the use of two to five push-buttons mounted in a plastic casing. The converter interprets the light signals generated at the keypad and provides standard electrical data directly to the researcher's computer. Because all of the components and cables which enter the MRI environment are made of plastic and do not create any interference or generate any spurious signals to corrupt the integrity of the image or to compromise safety, the **LUMItouch™** satisfies performance requirements which are not possible with electricity. The **LUMItouch™** is completely compatible and safe in the intense magnetic fields of the imager, where no electrical devices or metal objects are permitted.

This product is intended for use in research, where the researcher needs means for collecting patient or subject responses to external visual stimuli. The **LUMItouch™** assists the research team in mapping the brain: i.e. identifying the regions responsible for behavior, memory, speech, etc. The researcher's ultimate goal is to provide a useful tool for clinical assessment in patients suffering from epilepsy, language difficulty, behavioral disorders, etc. The first **LUMItouch™** was developed to meet a specific need at the University of British Columbia, and is now being produced for use in MRI research establishments in North America and Europe. Approximately \$45,000 was spent on the research and development of the **LUMItouch™**. To date, 11 **LUMItouch™** units have been sold and are in use at:

- California Institute of Technology (CALTEC), Pasadena, California
- Columbia University, New York, New York
- University of Mainz, Germany
- Vrije Universiteit, Netherlands
- Northwestern University, Chicago, Illinois
- Universitat Bonn, Germany
- Institute für Medizin, Jülich, Germany
- McMaster University, Toronto, Ontario
- University of British Columbia, Vancouver, British Columbia
- University Hospital of Maastricht, Netherlands
- Kuopio University Hospital, Finland

The primary advantage of the **LUMItouch™** is that it provides researchers with timely responses from subjects, without any disruption of the fMRI image, and without any danger to subjects from electrical or magnetic hazards. The **LUMItouch™** does not require medical regulatory clearance approval for its current use in research environments. Management of the Company intends to seek regulatory approvals for potential future clinical use. A photograph of a typical **LUMItouch™** is reproduced below:



LUMItouch™ Reply System for functional Magnetic Resonance Imaging

Future Product Developments

Products Used in Medical Industries

The Company intends to use the Technology to further develop a version of the surgical pencil to remove smoke from the surgical site (the “**LUMIVAC**”). Noxious smoke generated during electrosurgical procedures has now been recognized as an occupational health hazard for clinical staff. Several companies have introduced products to remove the smoke. Current products have not gained wide acceptance, because the products are bulky and clumsy to handle, and sold at a much higher price than a regular pencil. The **LUMIVAC** is a hollow surgical pencil which uses a miniature optical switch, and is connected to standard smoke evacuation machines. Management of the Company expects that the **LUMIVAC** will cost only marginally more to assemble than the **LUMITROL™**, and that the flexibility of design made possible by the optical switch will allow the **LUMIVAC** to be less bulky and clumsy to handle than competitive products. A patent application has been filed for this device.

The Company has spent approximately \$20,000 to date on the development of the **LUMIVAC**. The Company estimates that completion of design, testing and initial production tooling for the **LUMIVAC** will require about seven months. The Company expects to seek clearance to sell the **LUMIVAC** in the United States through a 510(k) submission to the United States Food and Drug Administration, and in Canada through a filing with the Health Protection Branch. The Company anticipates using \$120,000 of the proceeds of the Offering in the completion of design, testing and regulatory approval of the **LUMIVAC**. It is expected that the **LUMIVAC** will be assembled in volume on the same machine as the **LUMITROL™** (see “Business of the Company – Products – **LUMITROL™** Electrosurgical Pencil”).

The Company also intends to develop a Fibre Optic Pulse Oximeter to replace existing electrical devices, through its research partnership at Photonics Research Ontario. Pulse Oximeters are used to measure oxygen saturation in the blood of patients. The Company’s product, if successfully developed, is expected to increase the accuracy of measurements at lower oxygen levels, by reducing several internal wires with plastic optical fibres and by increasing the efficiency of delivery of light to the tissue. The Company anticipates using \$37,500 of the proceeds of this Offering for development of the Fibre Optic Pulse Oximeter. Overall, the project is expected to cost up to \$300,000, and is scheduled for completion over a period of 24 months from the completion of this Offering. No additional staff will be required at the Company to complete this project.

Research and Development Projects

The Company has performed preliminary studies into the adaptation of the Technology for use in the following environments:

1. hazardous environments,
2. commercial aircraft flight decks, and
3. naval and marine switching.

These preliminary studies are intended to provide the basis for research and development efforts of the Company to be initiated within the 24 month period from the completion of this Offering. The Company intends to allocate up to \$205,000 of the proceeds of this Offering for ongoing research and development into base technology to support these and other potential applications. Refer to "Use of Proceeds."

Proprietary Protection

The Company relies mainly on patents and trademarks to establish and protect its proprietary rights. The Company's competitive position is also dependent on unpatented trade secrets. The Technology is protected by four issued United States patents, one Canadian and one European patent, and one patent application filed in Canada. The Company anticipates applying for additional patents as a result of the activities funded with this Offering. The Company has entered into confidentiality agreements with potential partners and competitors to further protect its intellectual property and knowledge.

The Company has filed five trademark applications in the United States and three trademark applications in Canada.

The Company and LMI also have executed confidentiality agreements with most companies in competing medical businesses, and with several major switch companies. All employees and consultants are bound by confidentiality agreements. No disclosures of the Technology have made outside the Company without such an agreement in place.

Summary of Patents Issued

Date Issued	Type	Title	Number
16 April 1991	Canada	Self-Illuminating Fibre Optic Switch	1,282,986
25 Feb. 1992	US	Self-Illuminating Fibre Optic Switch	5,090,791
29 Jan. 1997	European	Self-Illuminated Fibre Optic Switch	0,359,712
10 Sept. 1991	US	Single Fibre Control Switches	5,046,806
10 Oct. 1995	US	Optical Control Panel	5,457,757
6 April 1999	US	Flexible Mirror Optical Switch	5,892,862

Summary of Patents Pending

Patent Application, Canada	Optical Fibre Sensor System for Electric Field Environments, fMRI #2,230,662
Patent Application, Canada	Fluorescence Based Optical Switch
Patent : Application, Canada	Electrosurgical Pencil for Use With Smoke Evacuation
Patent: draft	Pulse / Fetal Oximeter
Patent: draft	Wedge Optical Coupler

Summary of Trademarks Allowed

Trademark: Canada	LUMItouch™
Trademark: Canada	LUMITROL™
Trademark: Canada	The Operating Room of the Future

Summary of Trademarks Pending

Trademark: US	LUMItouch™
Trademark: US	LUMITROL™
Trademark: US	The Operating Room of the Future
Trademark: US	Coldswitch
Trademark: US	The Paradigm Switch

Operations

The Company's manufacturing and distribution facility is located at Units 250 and 260, 13155 Delf Place, Richmond, British Columbia. The Company's premises are equipped for plastics, optics and electronics engineering and prototype development. Pursuant to a sublease agreement between the Company and Arterial Vascular Engineering Canada Inc. dated January 31, 2000, the Company has subleased a 17,330 square foot facility which incorporates an integral 4,100 square foot Class 10,000 clean room. The Company pays rent of \$12,000 per month. The Company has an option to negotiate a new lease with the head landlord, Bentall Properties Ltd., for an additional term of five years commencing on August 30, 2001. The Company is at arm's length to the landlord.

The Company has entered into a sub-underlease agreement with Pyng Medical Corp. ("Pyng") for 3,568 square feet of this Richmond facility, including approximately 2,000 square feet of clean room space, under the same terms described above. Pyng has agreed to pay to the Company \$4,800 per month for this space.

Production

The Company has received ISO-9001 certification from SGS Canada Inc., a quality and documentation standard for product design, development and manufacturing, in respect of its Photonic controls, switches and sensors.

The Company has facilities in place to produce limited units of **LUMITROL™** and **LUMIVAC** products, and intends to use \$1,145,000 of the proceeds of this Offering to install fully-automated assembly facilities with an intended capacity of 2,500,000 units per year. See also "Business of the Company – Products – **LUMITROL™** Electrosurgical Pencil."

Raw materials, components and sub-assemblies for the Company's products are procured from arms-length third parties, with the exception of plastic molded components for the **LUMITROL™**, which are supplied by Precision Injection Molding Ltd., a company partly owned by Mr. Paul Tontsch, who also serves as the Company's Director of Engineering. Plastic optical fibre is currently procured from Toray Inc., one of three large Japanese suppliers. Assembled Fibre Optic cable is now procured from New England Fiber Optics Inc.

Market Size and Trends***The Company's Current Markets***

The world-wide market for switches is estimated by management of the Company, based upon available market data published on-line by Electronics Business News, to be over US\$5 billion per year. A market study performed for the Company by Jervis Associates, an arms-length consulting firm, identified medical markets for the Technology of \$1.5 billion annually.

The Technology is suitable for the “control switches” segment of the switch and control market. Management of the Company intends to first attempt to exploit applications within this market which have the following characteristics:

- severe regulatory, environmental and safety requirements;
- clear potential for substantial product cost reductions;
- some risk of catastrophic loss from failure;
- potential strategic partners; and
- available sales and distribution channels.

The Company expects the Technology will have particular advantages in the markets for switches for medicine, aerospace, automotive and marine control panels, switches for hazardous environments, and commercial and residential switches and controls. Subject to obtaining further market research, the Company believes that following medicine, the two most likely of these for immediate penetration are hazardous area switches and automotive controls and lighting. These two sectors appear to be attractive candidates because the current technologies are relatively costly. The development of optical systems is expected to be straight forward, and independent market channels are available for initial penetration.

Marketing Strategy

The Company intends to pursue strategic partnerships such as joint ventures, acquisitions and licensing. These joint ventures may include co-development of products, distribution, manufacturing or private labeling. Following a start up period for further evaluations and the closing of selected high profile accounts, the Company plans to introduce the **LUMITROL™** pencil on a region by region basis in the United States. This staged roll-out of products will be in coordination with LMI’s projected production capacities.

Pricing Policy

The initial pricing structure for LMI’s products is as follows:

- LUMITROL™**: at market, or with small discounts as required for early customers
- Controller: provided at no cost for the duration of the pencil contract (on loan)
- LUMIVAC**: at a substantial current discount to market prices

LMI expects to provide distributors with discounts to assist in closing large U.S. hospital buying groups. For hospital contracts of 100,000 units per year or greater, LMI expects to provide additional discounts.

The market for smoke evacuation devices is in its infancy: products currently offered are first generation devices which have not attained a significant share of the overall surgical market. Over the long term, LMI expects the market to expand as a result of new market entries and the adoption of improved and lower-cost technologies: as a result, LMI expects that the market price of the **LUMIVAC** may decrease by approximately 50%.

After Sales Service, Maintenance and Warranties

LMI provides technical support and instrument service for **LUMItouch™** customers presently. The **LUMItouch™** is warranted for one year for labour, and two years for parts. LMI intends to provide no charge maintenance and service on its pencil controllers, provided the customer maintains its pencil volume commitments as specified in its contract with the designated distributor.

LMI will match its competitor’s warranties for electrosurgical pencils for both the **LUMITROL™** and the **LUMIVAC**. LMI will warrant its products to be free from defect when used in accordance with the LMI’s training and written instructions. Further, LMI agrees to indemnify the distributor only for those claims arising from the proper use of LMI’s products. Such indemnification is invalid if the distributor provides information or instruction outside of LMI’s training or written instructions. This warranty is restricted to the replacement of the product only.

Partner Development

Management of the Company expects to spend significant funds on identifying and developing relationships with prospective partners. Extensive travel is anticipated in order to visit corporate head offices, manufacturing plants and distribution facilities. Additionally, the Company expects to conduct multiple product demonstrations and evaluations at strategic hospitals and appropriate industrial sites, some of which may involve significant travel globally.

Personnel

The Company expects to hire a marketing assistant early in 2000 to provide support in the areas of:

- quotations;
- development of promotional materials;
- technical support for customers; and
- distributors and sales reports.

In late 2000, LMI intends to hire a sales manager in the United States with experience in medical device marketing and strong relationships in hospitals and Health Maintenance Organizations to further develop key relationships with customers and distributors. The Company anticipates utilizing approximately \$166,675 of the proceeds of this Offering to hire employees in the marketing department of the Company and to pay the salaries and commissions of existing marketing personnel during the 12-month period from the closing of this Offering.

Advertising and Trade Shows

The Company has and will continue to attend the major medical conventions, including: American College of Surgeons, American Operating Room Nurses and MEDICA. The Company is committed to maintaining a strong presence at major industrial switching conferences, with special efforts given to manufacturing and technology congresses. These activities are critical to the Company's penetration of global markets and the pursuit of strategic relationships.

LMI's advertising plan is intended to ensure timely announcements of corporate achievements, and the placement of product advertisements in major industry journals and trade magazines such as: Medical Device and Diagnostic Industry, Medical Product Manufacturing News, Photonics Spectra, Biophotonics International etc. The Company anticipates utilizing approximately \$138,500 of the proceed of this Offering in selling expenses and travel expenses during the 12 month period from the closing of this Offering.

Information

LMI intends to invest in current, high quality marketing reports from MediStat and Frost and Sullivan. These companies provide detailed reports on competitor's activities and sales, industry trends, market analysis and product features.

Promotion

The Company intends to undertake significant promotional activities to ensure distributor focus, and strong brand recognition. Activities include sales incentives for distributor representatives and sales managers, sales contests and customer promotional items for trade shows. The Company anticipates utilizing approximately \$180,000 of the proceeds of this Offering on advertising and promotion activities for the Company during the 12 month period following the closing of the Offering.

Distribution

The Company's first product, the **LUMITROL™**, will be distributed in the United States through Regional Specialty Surgical Distributors ("RSSD") and national distribution firms. RSSD's will be responsible for utilizing their hospital relationships to generate demand for the product. The **LUMITROL™**'s projected low cost is expected to afford LMI the ability to provide significant margins (approximately 30%) to these distributors to ensure commitment and focus. The national distribution firms provide additional capabilities such as extensive warehousing, custom packaging, and national contract access. LMI currently has distribution agreements in place with CoMedical Inc. of Seattle, Washington, and WESTCON Medical Industries Inc. of San Rafael, California for representation in the Pacific Northwest and California. These agreements expire in early 2000 but are subject to one year extensions. National distributors will be added following the intended public offering of the Company, and additional RSSD's will be added as demand for the products grows.

Until the Company reaches full levels of production, and while demand for products of the Company is being generated, LMI is dependent upon two customers for the Pacific Northwest and Northern California/Nevada. There are no restrictions preventing LMI from marketing its products directly to hospitals in other regions of the United States market. All payment terms are net 30 days.

The marketplace for the **LUMItouch™** Reply System is global and very specialized, and requires a significant level of expertise to address the product customization needs of the customer. The **LUMItouch™** is marketed directly by the Company through internet promotion and attendance at major scientific congresses.

The Company has not yet received significant revenues from the sale of medical products. See "Use of Proceeds – Management's Analysis of Operations – Sales and Cost of Sales."

Independent Product Evaluation

The Company only conducts independent product evaluations in the course of its ongoing marketing efforts.

The **LUMITROL™** electrosurgical pencil was evaluated by LMI at Vancouver Hospital from November 10 to December 3, 1997. The trial was limited to the orthopedics, cardiovascular and thoracic surgery departments. The purpose of the evaluation was to assist LMI in determining the market acceptability of the **LUMITROL™** pencil, and to judge it as a suitable replacement for the current electrical product. Following the trial, feedback was obtained from eight surgeons. These comments are summarized below:

- | | |
|--|---|
| Safety: | (1) 100% of surgeons expressed the enhanced safety as an important feature of the LUMITROL™ ;
(2) 78% of surgeons had cautery experiences including electrical failure of pencil, shocks, sparks or burns; |
| Ergonomics: | 54% of surgeons suggested the LUMITROL™ 's ergonomics are superior to current products (features evaluated include: pencil grip, pencil weight/balance, button placement, tactile buttons, cable tangle/drag and cable flexibility); |
| Product Features & Function | The LUMITROL™ was rated superior in 42% of the parameters (including the deactivation switch, the electrode, cable length, single use of pencil, pencil diagnostics and performance/control), and compared "very well" in 48% when compared to existing pencils; |
| Other Comments | 75% of surgeons rated the pencil overall as superior to their current product, and also stated that they would prefer to use the LUMITROL™ if given the choice. |

In addition, 16 nurses evaluated 12 factors related to packaging, handling and general areas of the **LUMITROL™**. 76% of the responses suggest that the **LUMITROL™** was "very good" or "superior" to their current product. A further 21% of responses indicated a "good" rating.

Competition

Fibre Optics is a relatively mature technology, accepted as the industry standard in telecommunications and other data communications applications. Adaptation of telecommunications technology to general control and sensing problems has not been very successful, largely because cost-effective and industrially rugged optical solutions have not to date been available. The Technology addresses cost and performance barriers with an intrinsically rugged design, made possible by the use of advanced acrylic optical fibre and high-tolerance mass-produced plastic optical switch components.

Most current Fibre Optic switches and sensors use glass fibre, are electronically controlled and are costly. Some industrial control switches are based on plastic Fibre Optics; they are bulky, expensive and relatively inflexible, and cannot be used for multiple signals. Apart from the Technology, the only other low-cost Fibre Optic switch known to the Company is a switch is offered by Wireless Control System Inc., Rapid City, South Dakota intended for home renovations and health spa/hot tub applications, based upon stand alone switching modules designed for retrofit into existing wiring. At least one industrial Fibre Optic limit switch is offered, intended to complement a specific line of industrial controllers. The Company believes that the ability of these products to provide a platform for successful development of a broad line of products to serve general control applications will be limited by the use of multiple fibres and relatively expensive enclosures and opto-electric components, and by the need for such products to interface to existing electrical wiring and controllers.

Some public domain optical switches use multiple fibres and shutters or reflectors. The Technology provides significant cost advantages through the use of a single fibre and low cost components. Also, non-Photonic means for control of electrical equipment have disadvantages. Radio-frequency controls are often not suitable because of EMI, and infrared controls work only in direct line of sight. Voice-activated controls are subject to error from stray noise. The Company believes that Photonic controls provide a safe and effective alternative in many environments.

The markets for electrical switches are very large and diverse, and the switch and control market is fully populated and competitive. In most markets, there are intense competitive relationships between well-established companies. The Company believes that the Technology will be attractive to at least one established company in each target industry, and that it will be able to build successful strategic partnerships for initial market penetration.

LUMITROL™ Competition

The North American market for disposable electrosurgical pencils is estimated from various industry sources, such as manufacturers and distributors of pencils, at C\$90,000,000 per year, and is dominated by two companies: Valleylab Inc. of Boulder, CO, and ConMed Corporation of Utica, NY. Valleylab Inc. leads the United States disposable pencil market with an estimated 50% share, selling 11,000,000 to 12,000,000 units per year. ConMed has approximately a 35% share of the market, followed by several companies including Sparta Olsen Electrosurgery Co. of Concord, CA, and Aaron Medical Industries Ltd. of St. Petersburg, FL. Valleylab Inc. leads this market largely due to its strength in research and development and electrosurgical generator and accessory marketing. ConMed Corporation is known in the industry as a lower priced product and has enjoyed its success in large hospital group tenders. Both companies offer a full line of disposable and re-usable pencils, return pads, electrode accessories, and generators.

In the United States, the average selling price for a disposable electrosurgical pencil is US\$2.90 each, with Valleylab Inc.'s average approximately US\$3.00 per unit and ConMed Corporation approximately US\$2.75 per unit.

Other Financing: Private Placement

Pursuant to an Agency Agreement, dated November 3, 1999 as amended on December 15, 1999, between the Company and the Agent, the Agent agreed, on a best efforts basis, to assist the Company in a brokered private placement of up to 2,060,000 Common Shares at a price of \$0.50 per share. The Agent received a commission of 8% of the gross proceeds, 200,000 Common Shares as a corporate finance fee and \$35,000 as fees for its services rendered, of which up to \$10,000 may be refunded from commission payable under this Offering. Pursuant to an escrow agreement among the Company, Catalyst Corporate Finance Lawyers and the Agent dated November 19, 1999, the Agent deposited 150,000 of the corporate finance fee shares into escrow, to be released to the Agent upon

completion of the initial public offering of the Common Shares of the Issuer or upon the Company and the Agent jointly agreeing that such common shares should be released.

Summary and Analysis of Financial Operations

The following table sets out summary financial information of CST for the fiscal years ended January 31, 2000 and January 31, 1999:

CST Coldswitch Technologies Inc.	Year Ending January 31, 2000	Year Ending January 31, 1999
Amortization	\$ 17,624	\$ 23,132
General and Administrative Expenses		
Administration and general	80,079	150,884
Professional fees	35,203	67,169
Wages and management fees	325,094	230,724
Shareholder relations	16,000	--
Selling and Marketing		
Employee remuneration	128,818	109,500
Marketing expenses	19,470	12,621
Research and Development		
Employee remuneration	134,988	85,904
Other expenses	180,984	103,081
Tax credits and recovery of expenses	(230,262)	(41,945)
Total Operating Expenses	707,998	741,070
Interest on long-term debt	85,364	52,314
Interest and other income	(37,348)	(9,680)
Other cost recoveries	(124,991)	--
Net Loss (Income)	631,023	783,704
Working Capital (Deficiency)	183,616	(1,014,039)
Plant and Equipment	49,969	67,593
Patents and Technology	12,007	12,006
Long Term Obligations	20,000	20,000
Advances from Related Parties	\$387,663	\$402,501
Shareholders' Equity (Deficiency)	(162,071)	(1,356,941)
Number of Issued, Subscribed and Outstanding Common Shares	9,024,808 ⁽²⁾	4,718,875 ⁽²⁾

- (1) There are 10,338,209 Common Shares issued and outstanding as of the date of this Prospectus (excluding the 95,599 Common Shares referred to in note (2) below but including the 1,400,000 common shares owned by the Company indirectly and held for cancellation), and assuming that the Offering is fully subscribed, a total of 14,338,209 Common Shares (including the 1,400,000 common shares owned indirectly by the Company) will be issued and outstanding, assuming the Agent's Warrant and Greenshoe Option are not exercised. Refer to "Share Capital" for a discussion of the Company's issued and outstanding Common Shares, Escrow Shares and the Agent's Warrant.
- (2) Assumes 95,599 Common Shares are issued pursuant to the compulsory acquisition procedure for the remaining shares of LMI. Refer to "Business of the Company – Acquisitions and Dispositions".

Management's Discussion and Analysis

The following summary should be read in conjunction with the financial statements and accompanying notes attached hereto.

Year Ended January 31, 2000

For the year ended January 31, 2000, the Company reported a net loss of \$631,023 compared to a loss of \$783,704 in the prior year. General and administrative expenses were \$456,376 compared to \$448,777 in the prior year. Sales and marketing expenses were \$148,288 compared to \$122,121 and research and development expenses, net of government assistance and recovery of expenses, were \$85,710 compared to \$147,040 in the prior year.

During the year the Company realized cash proceeds from the issuance and subscription of share capital of \$1,463,801 before share issuance costs of \$362,399 of which \$150,000 was a non-cash expense compared to cash proceeds from the issuance and subscription of share capital of \$344,205 in the prior year. In addition the Company issued \$724,491 of share capital for settlement of liabilities compared to the issuance of \$649,093 of share capital for settlement of liabilities in the prior year.

Year Ended January 31, 1999

For the year ended January 31, 1999, the Company reported a net loss of \$783,704 compared to a loss of \$845,048 in the prior year. General and administrative expenses were \$448,777 compared to \$480,291 in the prior year. Sales and marketing expenses were \$122,121 compared to \$113,653, and research and development expenses, net of government assistance and recovery of expenses, were \$147,040 compared to \$154,366 in the prior year.

During the year, the Company realized cash proceeds from the issuance and subscription of share capital of \$344,205 compared to cash proceeds from the issuance and subscription of share capital of \$685,727 in the prior year before share issue costs of \$36,249 in the prior year. In addition, the Company issued \$649,093 of share capital for settlement of liabilities compared to the issuance of \$2,625 of share capital for settlement of liabilities in the prior year.

Liquidity and Capital Resources

As at January 31, 2000 the Company reported working capital of \$183,616 compared to a working capital deficiency of \$1,014,039 at January 31, 1999. The cash component increased by \$493,764 to \$528,079 from \$34,315 at January 31, 1999.

During the year the Company issued \$1,463,801 of share capital for cash proceeds and issued a further \$724,491 of share capital for settlement of liabilities compared to issuing \$344,205 of share capital for cash proceeds and issuing \$649,093 of share capital for settlement of liabilities in the prior year.

Looking forward the Company will continue to raise funds by issuing share capital to finance its business objectives.

Business Objectives

Over the twelve-month period following the completion of the Offering, it is the Company's objective to:

- automate production of its electrosurgical pencil products;
- establish distribution and marketing of the Company's medical products in North America and Europe;
- continue to develop proprietary products using the Company's optical switching and sensing technology for use in new industries; and

- enter into long term agreements with industrial partners for the development and sale of the Company's products.

Milestones

The significant events that must occur in order for the Company to achieve its business objectives, the time periods during which these events are expected to be achieved, and the related costs are as follows:

Automate Production of its Electrosurgical Products

- Purchase equipment to construct an automated production machine for **LUMITROL™** and **LUMIVAC** electrosurgical pencils within the period of twelve months after the completion of the Offering at an anticipated cost of approximately \$1,145,000. Management of the Company has solicited bids from seven qualified contractors for the construction and commissioning of such equipment, and has selected Pyramid Automation Inc. of Victoria, British Columbia, a firm at arms-length to the Company. Completion and commissioning of this machine is estimated to require eight months;
- Prepare moulds for plastic parts for volume production of **LUMITROL™** and **LUMIVAC** pencils at an anticipated cost of \$260,000 during the 12 month period following the completion of the Offering; and
- Provide for infrastructure, components and laboratory and testing equipment in production facilities at an anticipated cost of \$45,000 during the 12 month period following the completion of the Offering.

Refer to "Business of the Company - Marketing Strategy", and "Business of the Company - Production".

Establish Distribution in North America and Europe

- Hire a sales manager in the United States and a marketing assistant within the next twelve months, at an aggregated anticipated cost of \$75,000 per annum. This is included in marketing expenses of \$535,175, which have been allocated in the "Use of Proceeds". Refer to "Use of Proceeds" and to "Business of the Company - Marketing Strategy"; and
- Enter into a long term agreement with a United States national medical products distributor within the next 12 months. Refer to "Business of the Company - Distribution".

Develop Proprietary Products

- Investigate and develop product assembly techniques and production systems for the **LUMIVAC** pencil, at an anticipated cost of approximately \$120,000 within the 12 month period following the completion of the Offering; and
- Advance the Pulse Oximeter research and development project with Photonics Research Ontario over the next twelve months, at an anticipated cost of \$37,500. Refer to "Use of Proceeds."

Refer to "Business of the Company - Future Product Developments".

Adapt the Technology For Use by OEMs

- Enter into a technology partnership within the next twelve months. The cost is anticipated to be approximately \$50,000 and will be provided from the general and administrative salary and travel expenses allocated in the "Use of Proceeds." Refer to "Business of the Company - Products - Future Product Developments".

Management and Employees

The persons identified below comprise the management team of the Company. Each person in the management team has signed a non-disclosure agreement with the Company.

Key Personnel

John Kidder, President, Chief Executive Officer and Chairman of the Board of Directors.

Mr. Kidder is President and Chief Executive Officer of the Company on a full time consulting basis. Mr. Kidder founded the Company in September 1988. From September 1991, Mr. Kidder has also been President and Chief Executive Officer of LMI. Mr. Kidder has experience in the management of early stage companies and the development of advanced technologies. From 1985 to 1987, Mr. Kidder was President of Strahl Technologies Inc., a corporation which developed bright high resolution video displays using plastic fibre optics. Mr. Kidder attended College Militaire Royale de St. Jean and the University of British Columbia; however, he did not complete a degree at either institution. Mr. Kidder is Vice-Chair of the British Columbia Photonics Industry Association, a member of the Society for Photo-Optical Instrumentation Engineers (SPIE), a member of the Board of Directors of the Medical Device Development Centre at Vancouver Hospital and Health Sciences Centre, and a past Director of the Canadian Advanced Technology Association (CATA). Mr. Kidder is 52 years of age.

Barney Magnusson, B.A., C.A., Chief Financial Officer.

Mr. Magnusson is the Chief Financial Officer of the Company and is engaged by the Company on a part time consulting basis. Mr. Magnusson has twenty years experience in financial management, corporate development and public relations for publicly traded companies on the Toronto Stock Exchange and Canadian Venture Exchange. For the past five years, Mr. Magnusson has been and continues to be the President of Adapa Management Ltd., a financial consulting company. From 1996 to 1998 he was the Chief Financial Officer and a Director of Patricia Mines Inc., a Toronto-based junior mining company. Mr. Magnusson received his B.A. at Simon Fraser University. Mr. Magnusson is 49 years of age. Mr. Magnusson has signed a non-competition agreement with the Company.

Volf Smus, Ph.D., Senior Scientist.

Dr Smus is the senior scientist of the Company and has been working with the Company as a full time employee since 1997. Dr. Smus has been working in electronics and optics for over forty-five years. From 1996 to 1997, he was a hardware engineer at General Electron Services, and from 1991 to 1994 he was a hardware engineer at Access Technologies Ltd. in Israel. He holds 26 patents on a wide range of optical and opto-electronic devices, and is skilled as an early-stage designer and tester. Dr. Smus managed a laboratory with over sixty engineers in St. Petersburg, Russia, before emigrating to Canada. Dr. Smus received his Ph.D. in Electronics at the St. Petersburg University in Russia. Dr. Smus is 74 years of age.

Melissa Crenshaw, BSc., BA, Intellectual Property Manager.

Ms. Crenshaw is the intellectual property manager of the Company and has been engaged by the Company on a part time consulting basis since 1993. She has also been working for Ledalite Architectural Products on a consulting basis since 1997 and on a salary basis since May 1999. From 1994 to 1997 she was director of the Holographic Studio in Vancouver, British Columbia. Ms. Crenshaw's optical installations include BC Tel Mobility Centre, Centre for Image and Sound Research, and Science World Museum, and a collaboration with Vince Helton and Associates. Ms. Crenshaw is a world recognized holographer and developer of innovative optical techniques for major architectural works. Ms. Crenshaw is 48 years of age.

Natalie Learmonth, Comptroller.

Ms. Learmonth has been employed by the Company part-time since its inception, and joined the full-time staff in 1993. She has a wide base of experience in financial management in technology companies. Ms. Learmonth studied for 3 years at the Vancouver School of Art. Ms. Learmonth is 47 years of age.

Dale Lambert, Manager of Operations.

Mr. Lambert joined the Company in September 1999 as a full time consultant. From 1990 to 1998, Mr. Lambert worked at Comptec International Ltd. as Quality Assurance Manager and Quality Engineer. Mr. Lambert received a Certificate of Quality Assurance Management at the University of Manitoba, and a Diploma of Extractive Metallurgy from B.C. Institute of Technology. Mr. Lambert is 49 years of age.

Key LMI Personnel

In addition to Mr. Kidder, management personnel of LMI includes:

Douglas Broadfoot, BSc., Manager, Sales and Marketing.

Mr. Broadfoot joined LMI in March 1997 on a consulting basis, and took full-time responsibility for marketing and sales in August 1997. Mr. Broadfoot has a wide background in medical device sales and marketing, (including electrosurgery and biomedical sensors), sales and distribution management, with such companies as Smith and Nephew from 1995 to 1997, Fisher Scientific from 1990 to 1995, and Bard Canada from 1986 to 1989. Mr. Broadfoot received his B.Sc. from the University of Alberta. Mr. Broadfoot is 39 years of age. Mr. Broadfoot has signed a non-competition agreement with the Company, but is not a director or officer.

Paul Tontsch, Director of Engineering.

Mr. Tontsch joined LMI on a part time basis in August 1996, but is not a director or officer. Since 1997, Mr. Tontsch has been the principal of Precision Injection Molding, a plastic injection molding company. He was Director of Technology at Comptec International in Vancouver from 1993 to 1996, following fifteen years of experience in plastics design and production at Northern Telecom in England. He is experienced in the operation and management of plastics manufacturing processes, including injection moulding and high-volume assembly of complex devices.

Organizational Structure

The following chart sets out as at December 31, 1999 the number of full and part time employees or consultants in each department, and the approximate number of full and part time employees or contractors in each department required to meet the Company's business objectives (refer to "Use of Proceeds – Business Objectives" and "Use of Proceeds – Milestones"):

	Current Full Time	Current Part Time	Total Part Time Required to Meet Business Objectives	Total Full Time Required to Meet Business Objectives
Research & Development	3	1	1	5
Operations	2	2	-	10
Sales and Marketing	1	-	-	3
Administration	4	1	-	6
Total:	10	4	1	24

ADMINISTRATION

Currently, the Company has combined general and administrative costs of approximately \$42,200 per month.

The consolidated administration expenses that are expected to be incurred by the Company to achieve its stated business objectives during the twelve-month period following the completion of this Offering are budgeted as follows:

Category	Average Monthly Amount	Annual Total
Salaries and fees	\$ 35,356	\$ 424,272
Premises and communications	4,070	48,840
Shareholder relations	7,250	87,000
Professional fees	4,083	48,996
Travel	3,833	45,996
Other	7,870	94,440
TOTAL:	\$ 62,462	\$ 749,544

It is anticipated that there will not be significant monthly fluctuations in the total monthly administration costs, although each component may fluctuate materially on a monthly basis at some time during the year.

USE OF PROCEEDS

Funds Available

The funds that will be available to the Company upon the completion of this Offering, assuming that the Agent's Warrant and Greenshoe are not exercised, will consist of:

Net Proceeds of Offering	\$ 3,700,000
Combined Working Capital Deficiency as of May 31, 2000	(134,259)
TOTAL:	\$ 3,565,741

If the Agent exercises the Greenshoe Option, the Company will receive up to \$555,000 after commissions, which will be added to the Company's working capital. Refer to "Plan of Distribution". There are no assurances that the Agent's Warrant or the Greenshoe Option described above will be exercised in whole or in part.

Nature of Projects to be Financed

The Company intends to advance funds to LMI to allow it to automate its production line for the assembly of the **LUMITROL™** and **LUMIVAC** surgical products, to continue marketing of its medical devices and developing strategic partnerships, and for the Company to continue market research into additional industry sectors, such as explosion-proof switching and automotive applications, and to finalize additional trademarking and patent applications.

Principal Purposes

As at May 31, 2000, the Company had consolidated working capital of (\$134,259). The Company will receive net proceeds of \$3,700,000 from the sale of Shares under this Offering assuming that the Agent's Warrants and the Greenshoe Option are not exercised, for a total of 3,565,741, which the Company intends to expend as follows:

Description of Funds Available	Offering
Offering expenses	\$ 90,000
Purchase of Capital Assets: ⁽¹⁾	
Automated machinery	\$ 1,145,000
Production Moulds ⁽⁶⁾	260,000
Infrastructure ⁽⁷⁾	45,000
Contingency	<u>75,500</u>
Inventory of 15,000 finished LUMIVAC electrosurgical pencils	1,525,500 105,000
Research and Development: ⁽²⁾	
LUMIVAC ⁽⁸⁾	120,000
Pulse Oximeter	37,500
Assembly Systems ⁽²⁾	120,000
Base Optical Control Technology ⁽³⁾	205,000 482,500
Marketing ⁽⁴⁾	485,175
General and administrative ⁽⁵⁾	749,544
Working capital to fund ongoing operations	128,022
TOTAL:	<u>\$ 3,565,741</u>

⁽¹⁾ Refer to "Business of the Company - Production".

⁽²⁾ Refer to "Business of the Company - Milestones".

⁽³⁾ Refer to "Business of the Company - Research and Development Projects".

⁽⁴⁾ Refer to "Business of the Company - Marketing Strategy" and "Business of the Company - Milestones".

⁽⁵⁾ Refer to "Business of the Company Administration".

⁽⁶⁾ Refer to "Business of the Company - Milestones".

⁽⁷⁾ Refer to "Business of the Company - Milestones".

⁽⁸⁾ Refer to "Business of the Company - Future Product Developments".

The Company will spend the funds available to it on the completion of the Offering to further the Company's stated business objectives as set out in "Business of the Company". There may be circumstances where, for sound business reasons, a reallocation of funds may be necessary in order for the Company to achieve its stated business objectives. Any material reallocations and the reasons therefore will be disclosed on a timely basis.

RISK FACTORS***General***

Investment in the Common Shares must be considered speculative, carrying significant risks and should be undertaken only by investors who have sufficient financial resources to enable them to assume such risks and who have no need for immediate liquidity in their investment. Common Shares should not be purchased by persons who cannot afford the possibility of the loss of their entire investment, and an investment in the Common Shares should not constitute a major portion of an individual's portfolio. In addition to the usual risks associated with an investment in a business, each investor should consider the following risk factors very carefully before purchasing the Common Shares:

Reliance Upon Management

The Company is dependent upon the personal efforts and commitment of the management, particularly John S. Kidder who is responsible for the development of current and future products. The Company is highly dependent on John S. Kidder, and the loss of his services would significantly impede the Company's achievement of its new development objectives. The Company has purchased a key man insurance policy on the life of John S. Kidder aggregating \$1,000,000. The Company is the beneficiary of this policy.

In addition, the success of the Company is presently largely dependent on the services of a limited number of key individuals. Success will depend upon the ability of the Company to recruit and retain additional skilled individuals as required. No assurance can be given that the Company will be able to attract and retain the required individuals given the competitive environment for such individuals. The loss of key employees or the inability to hire and retain additional qualified personnel could have a material adverse effect on the Company's results of operations.

Product Liability

The Company faces the inherent business risk of exposure to product liability claims in the use of its products. While the Company will continue to attempt to take appropriate precautions, there can be no assurance that it will avoid significant product liability exposure. LMI has in the past secured product liability insurance to cover up to an aggregate of losses of US\$1,000,000 per year, and intends to renew this insurance before LMI ships its intended surgical products; however there can be no assurance that such coverage will be adequate, that adequate insurance coverage for future commercial activities will be available at all, or at acceptable cost, or that a product liability claim would not materially adversely affect the business or financial condition of the Company.

Development Stage

The Company is at an early stage of development and to date has not recorded any significant revenues from the commercialization of its products. There can be no assurance that the Company will become profitable in the future.

The Company's business is being financed primarily by equity. Accordingly, the Company is subject to risks associated with development stage companies, including losses, uncertainty of revenues, markets and profitability and the possibility that it will require additional funding that may not be available. The Company is presently experiencing significant losses from its operations.

New Product Development

There can be no assurance the Company will be successful in identifying, developing, manufacturing and marketing new products or enhancing its existing product lines. If that happens, a risk exists that other competing products might be launched and capture a significant part of the market targeted by the Company.

No assurance can be given that additional technologies and prototypes can be developed within a reasonable development schedule, if at all. There can be no assurance that the Company will have sufficient economic or human resources to complete such development in a timely manner, or at all, or that it will enter into economically reasonable arrangements for the manufacture of such products by third parties.

Market Acceptance

The Company's success will depend upon its current and proposed technologies and products meeting acceptable cost and performance criteria in the marketplace. There can be no assurance the Technology and products of the Company will meet applicable price or performance objectives or that unanticipated technical, regulatory or other problems will not occur which would result in increased costs or material delays.

Intellectual Property

The Company's success depends in part on its ability to protect its trademarks and patents and to operate without infringing the proprietary rights of other companies. The Company has applied for trademark and patent protection for certain of its products; however, no assurance can be given that such trademarks and patents will be issued or, if issued, that they will provide any meaningful protection. The trademark and patent position of companies generally is highly uncertain and involves complex legal and factual questions. Any trademark and patent may be challenged, invalidated or circumvented, or may not provide sufficient competitive advantage. The Company regards the non-patented and non-copyrighted technology and know-how related to its products as proprietary trade secrets and attempts to protect them with non-disclosure agreements and confidentiality provisions in its employment agreements. Non-disclosure agreements, however, may be difficult to enforce, and, despite the precautions the Company has taken, it may be possible for third parties to copy aspects of the Company's products or, without authorization, to obtain and use information which the Company regards as proprietary.

The current trademarks and patents, and trademark and patent applications, pursuant to which the Company develops its products may not offer adequate protection or commercial benefit to the Company, or afford the Company adequate protection from competing products. The protection afforded by trademarks and patents is uncertain and there can be no assurance that the trademarks and patents will not be challenged or declared invalid or that the products will not infringe on the trademark and patent rights of others. To the extent that the Company relies on trade secrets and unpatented know-how to establish and maintain its competitive technological position, there can be no assurance that others may not independently develop the same or similar technologies. The loss of trademark and patent protection could have a material adverse effect on the results of the Company's operations.

Additional Management Requirements

The Company's development and marketing plans, if implemented, will require a significant increase in required management resources. While the management team is believed to be adequate at this stage of corporate development, greater management resources will be necessary in the future for the Company to realize its growth and profitability goals.

Exchange Rate

The Company will be subject to fluctuations in currency exchange rates and other risks of foreign operations, including tariff regulations and export license requirements, unexpected changes in regulatory requirements, longer periods to collect accounts receivable, potentially inadequate protection of intellectual property rights, local taxes, restrictions on repatriation of earnings and economic and political instability. There can be no assurance that such factors will not have a material adverse effect on the Company's results of operations.

No Public Market

There has to date been no public market for the Common Shares, and there can be no assurance that a liquid public market on a stock exchange will develop, or be sustained after the Offering. The lack of a liquid public market could have a material adverse effect on the market price of the Common Shares. The price at which the Common Shares are offered hereunder was determined by negotiation between the Company and the Agent, and may not be indicative of fair market value or future market prices.

Customer Confidence

As a corporation with a small resource base, the Company may be subject to a lack of customer confidence in its capability to provide ongoing support for its products.

Control by Management

Upon completion of the Offering, assuming that the Agent's Warrant and Greenshoe Option are not exercised, the directors and officers of the Company will beneficially own or control 1,825,796 Common Shares, representing 12.73% of the then issued and outstanding Common Shares. Upon completion of the Offering, John S. Kidder will beneficially own or control 1,184,130 Common Shares of the Company or 8.26% of the issued and outstanding Common Shares. There can be no assurance that the directors and officers will be able to retain control of the Company.

Dilution

The financial risk of the Company's future activities will be borne to a significant degree by purchasers of Shares under this Offering who, upon its completion, will incur immediate and substantial dilution. The following table sets forth the dilution per Share as at January 31, 2000 after deducting commission and issue costs and based on the balance sheet of the Company as at January 31, 2000:

Offering price per Share	\$1.00
Net tangible book value per Share before the Offering	(\$0.02)
Increase in net tangible book value attributable to this Offering	\$0.28
Net tangible book value per Share after giving effect to the Offering	\$0.26
Dilution per Share to purchasers	\$0.74
Percentage of dilution to purchasers in relation to the Offering price	73.62%

Competition

Existing competitors may have greater financial, managerial and technical resources, operating histories and name recognition. There can be no assurance that the market will consider the Company's products to be superior or equivalent to existing or future competitive products or that the Company will be able to adapt to evolving markets and technologies, develop new products, achieve and maintain technological advantages or maintain a unit selling price competitive with other products.

Many of the Company's competitors have significantly greater research and development capabilities, and marketing, manufacturing, financial and managerial resources. No assurance can be given that developments by others will not render the Company's products or technologies non-competitive or that the Company will be able to keep pace with technological developments. To the extent that the Company is unable to develop or acquire new technologies that achieve commercial success, the results of the Company's operations will be materially adversely affected.

Regulatory Requirements

The Company's products and manufacturing activities are subject to extensive and rigorous government regulation, both in the United States and abroad. Although LMI's first product received prompt FDA clearance, and although the Company's design, manufacture and quality control systems are certified to the International Standards Association's ISO-9001 standard, there can be no assurance that future regulatory requirements will be met in such an efficient manner or at all.

Additional Financing Requirements

The implementation of the Company's business plan is dependent upon an injection of capital. Delays in meeting the anticipated funding schedule may affect the ability of the Company to implement its business plan in the time frame currently projected. The Company may need further funding in the future to achieve its business objectives. There is no assurance that any additional financing will be obtained or, that if obtained, will be at a reasonable cost.

DIRECTORS, OFFICERS AND PROMOTERS

Name, Address, Occupation and Security Holding

The names, addresses, positions and principal businesses or occupation of the directors, officers and promoters of the Company during the immediately preceding five years, and their respective ownership of Common Shares are as follows:

Name, Address and Office	Principal Occupation for the Past Five Years	Number of Common Shares, Common Share Purchase Warrants and Options Beneficially Owned or Controlled⁽¹⁾	Percentage of Class of Security after Offering⁽²⁾
John Kidder Vancouver, British Columbia Director, President Chief Executive Officer Chairman, Promoter⁽³⁾⁽⁴⁾	Chief Executive Officer and Chairman of the Board of Directors since September 1988. Chief Executive Officer and Chairman of LMI Lightwave Medical Industries Limited since 1991.	1,184,130 ⁽⁵⁾	8.26%
		NIL	NIL
		229,563	22.54%
James Avis West Vancouver, British Columbia Director⁽⁴⁾⁽⁵⁾	President 3500012 Canada Inc. from June 1998 to present. Vice-Chairman and Chief Executive Officer of Starvision Multimedia Corp. from April 1999 to April 2000. Executive Vice-President, Business Development and General Counsel of Newbridge Networks Corporation from September 1990 to June 1998.	50,000	0.35%
		25,000 ⁽¹⁰⁾	10.89%
		42,500	4.17%
Lauren Blair Calgary, Alberta Director⁽⁶⁾	Self-employed businessperson from March 1999 to present. Urban planner for the City of Calgary from January 1995 to March 1999. Professor at the University of Calgary from April 1997 to April 1998.	150,000	1.05%
		NIL	NIL
		37,500	3.68%
Robert Blair Calgary, Alberta Director⁽⁵⁾	Self-employed businessman from January 1991 to present.	150,000	1.05%
		NIL	NIL
		37,500	3.68%

Name, Address and Office	Principal Occupation for the Past Five Years	Number of Common Shares, Common Share Purchase Warrants and Options Beneficially Owned or Controlled ⁽¹⁾	Percentage of Class of Security after Offering ⁽²⁾
Robert Breault Tucson, Arizona Director	President, Chief Executive Officer and Chairman of the Board of Directors of Breault Research Organization Inc. from November 1979 to present.	NIL NIL 35,000	NIL NIL 3.44%
Donald Rix, M.D. Vancouver, British Columbia Director⁽⁶⁾	Chair of MDS Metro Inc. from 1994 to present and Lab Director and President from 1979 to 1994.	91,666 ⁽⁷⁾ NIL 40,000	0.64% NIL 3.93%
John Swift Vancouver, British Columbia Director⁽³⁾⁽⁴⁾⁽⁶⁾	President of John J. Swift Law Corporation since June 1996. Partner of Farris & Co. from September 1986 to May 1996.	NIL NIL 45,000	NIL NIL 4.42%
Hugh Wynne-Edwards⁽⁵⁾ Vancouver, British Columbia Director	President and Executive Chairman of B.C. Research Inc. from June 1993 to present. President of Terracy Inc. from June 1989 to present.	100,000 ⁽⁹⁾⁽¹⁰⁾ 50,000 37,500	0.77% 21.79% 3.68%
Barney Magnusson, C.A. West Vancouver, British Columbia Chief Financial Officer Secretary	President of Adapa Management Ltd. from December 1985 to present. Vice President Corporate Development and Director of Patricia Mines Inc. from January 1996 to June 1998.	100,000 ⁽⁸⁾ NIL 30,000	1.01% NIL 2.94%

⁽¹⁾All of these Common Shares are subject to the escrow requirements prescribed by Policy 5.4 of the Corporate Finance Manual of the Exchange. The Escrow Shares, subject to graduation of the Company from an "emerging/tier 2" issuer to an "established/tier 1" issuer, will be released over a period of three years. Refer to "Share Capital - Escrow Shares".

⁽²⁾These figures assume that the Greenshoe Option and Agent's Warrant have not been exercised.

⁽³⁾Member of the Corporate Governance Committee.

⁽⁴⁾Member of the Executive Committee.

⁽⁵⁾Member of the Audit Committee.

⁽⁶⁾Member of the Compensation Committee.

⁽⁷⁾Held through Rix Professional Medical Corporation, of which Dr. Rix is the sole shareholder.

⁽⁸⁾Held through Adapa Management Ltd., of which Mr. Magnusson is the sole shareholder.

⁽⁹⁾Held through Terracy Inc., of which Mr. Wynne-Edwards is the sole shareholder.

⁽¹⁰⁾Refer to "Share Capital – Common Share Purchase Warrants."

Aggregate Ownership of Securities

Upon the completion of the Offering, excluding the Common Shares to be issued upon the exercise of the Greenshoe Option and the Agent's Warrant, the directors, officers and promoters of the Company, as a group, will beneficially own, directly or indirectly, 1,825,796 Shares representing 12.73% of the issued and outstanding Common Shares. The Company also owns indirectly 1,400,000 of its own Common Shares representing 9.76% of the Common Shares then outstanding.

Other Reporting Issuers

The following directors, officers or promoters of the Company are, or have within the past five years been, directors, officers or promoters of other reporting issuers:

Director and Name of Reporting Issuers	Position	Period
James Avis		
Crosskeys Systems Corporation	Director	1992 to present
Newbridge Networks Corporation	Executive Vice President, General Counsel and Secretary	1990 to 1998
Barney Magnusson		
Patricia Mines Inc.	Director	1996 to 1998
Donald Rix		
Chai-na-ta Corp.	Director	March 1999 to present
Okanagan Skeena Group Limited	Director	1998 to October 1999
Immune Network Research	Director	1996 to present
MDS Inc.	Director	1987 to 1997
John Swift		
Inex Pharmaceuticals	Director	1995 to present
Hugh Wynne-Edwards		
CS Resources Ltd.	Director	1993 to 1997
Robert Blair		
Biomira Inc.	Director	1994 to present

Corporate Cease Trade Orders or Bankruptcies

No director, officer or promoter of the Company has, within the past five years, been a director, officer or promoter of any reporting issuer that, while such person was acting in that capacity, was the subject of a cease trade or similar order or an order that denied the Company access to any statutory exemptions for a period of more than 30 consecutive days or was declared a bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or been subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver-manager or trustee appointed to hold the assets of that person.

Penalties or Sanctions

No director, officer or promoter of the Company has ever been subject to any penalties or sanctions imposed by a court or securities regulatory authority relating to trading in securities, promotion, or management of a publicly traded issuer or theft or fraud.

Individual Bankruptcies

No director, officer or promoter of the Company has, within the past five years, been declared bankrupt or made a voluntary assignment in bankruptcy, made a proposal under any legislation relating to bankruptcy or insolvency or been subject to or instituted any proceedings, arrangement, or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold the assets of that individual.

Conflicts of Interest

Mr. John Kidder is Chairman, President and Chief Executive Officer of the Company, and is also Chairman, President and Chief Executive Officer of LMI. There are no other existing or potential conflicts of interest and there have been no transactions within the previous three years from the date of this Prospectus among the Company, its directors and officers, principal holders, the Agent and persons providing professional services to the Company, which could reasonably be expected to affect a holder, other than as set out in this Prospectus.

Certain of the directors may serve as directors of, have significant shareholdings in, or provide professional services to other companies and, to the extent that such other companies may participate in ventures with the Company, the directors of the Company may have a conflict of interest in negotiating and concluding terms respecting the extent of such participation. In the event that such a conflict of interest arises at a meeting of the Board of Directors, a director who has such a conflict must disclose the nature and extent of his interest to the meeting and abstain from voting for or against the approval of such participation.

INDEBTEDNESS OF DIRECTORS, OFFICERS AND PROMOTERS

No director, officer or member of management, or any of their respective associates or affiliates, is or has been indebted to the Company at any time.

PAYMENTS TO INSIDERS AND PROMOTERS**Executive Compensation*****Definitions***

For the purposes of this Prospectus:

- (a) “Chief Executive Officer” means an individual who served as chief executive officer of the Company, or acted in a similar capacity during the financial year ending January 31, 2000;
- (b) “Executive Officer” means an individual who at any time during the year was the Chairman or a Vice-Chairman of the Board of Directors, where such person performed the functions of such office on a full-time basis, the President, any Vice-President in charge of a principal business unit such as sales, finance or production, or any officer of the Company, or other person who performed a policy-making function in respect of the Company; and
- (c) “Named Executive Officer” means the Chief Executive Officer and the four most highly compensated Executive Officers whose total annual salary and bonus exceeds \$100,000.

During the fiscal year ended January 31, 2000, the Company had one Named Executive Officer: John S. Kidder.

LMI Lightwave Medical Industries Limited		Annual Compensation			Long Term Compensation			All Other Compensation
					Awards		Payouts	
Name and Principal Position	Year Ended	Salary	Bonus	Other Annual Compensation	Securities Under Options/SARs granted(#)	Restricted Shares or Restricted Share Units	LTIP ⁽¹⁾ Payouts	
Ken Morrison Chief Financial Officer	January 31, 2000	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	January 31, 1999	Nil	Nil	Nil	Nil	Nil	Nil	Nil
	January 31, 1998	\$ 11,320	Nil	Nil	Nil	Nil	Nil	\$ 1,318
Douglas Broadfoot Manager, Sales & Marketing	January 31, 2000	\$ 108,000	Nil	3,650 Common Shares ⁽³⁾	Nil	Nil	Nil	\$ 7,145
	January 31, 1999	\$ 93,000	Nil	22,050 Common Shares ⁽³⁾	Nil	Nil	Nil	\$ 8,845
	January 31, 1998	\$ 33,150	Nil	Nil	Nil	Nil	Nil	Nil

- (1) "LTIP" or "long term incentive plan" means any plan which provides compensation intended to serve as incentive for performance to occur over a period longer than one financial year, but does not include option or stock appreciation right plans.
- (2) Issued as Directors' bonus.
- (3) Issued as Employee bonus.
- (4) These monies were paid directly to J. Kidder & Associates.

Directors' Compensation

The directors do not receive cash compensation for their services as directors or members of committees of the Board of Directors, but are eligible to receive stock options pursuant to the stock option plan (the "Plan") adopted by the Board of Directors on March 1, 2000. Refer to "Stock Option Plan". The Plan is subject to acceptance by the Exchange. Any options granted pursuant to the Plan may not be exercised until the Plan receives Exchange approval. The effective date of the Plan is March 1, 2000.

Employment and Consulting Contracts

Adapa Management Ltd.

On February 9, 1999, the Company entered into a consulting agreement with Adapa Management Ltd. ("Adapa") for a term of ten months commencing on February 9, 1999, which terminated on December 31, 1999. The Company and Adapa are currently negotiating a new consulting agreement. Pursuant to such agreement, Adapa provided corporate finance services to the Company and received a corporate finance services fee of 100,000 Common Shares for having identified and secured an agency agreement with Canaccord Capital Corporation. In addition, Adapa receives a consulting services fee of \$85 per hour for the first 50 hours billed per month, and \$75 for each hour thereafter. The Company has agreed to reimburse Adapa for reasonable expenses incurred in providing services to the Company. The principle of Adapa is Barney Magnusson, the Chief Financial Officer of the Company. Refer to "Material Contracts".

Douglas E. Broadfoot

On February 1, 1998, LMI entered into an employment agreement with Douglas E. Broadfoot for a term of 23 months commencing on February 1, 1998 and terminating on December 31, 1999. Pursuant to such agreement, Mr. Broadfoot serves as Manager, Marketing and Sales of LMI and receives an annual salary of \$102,000 for the first year of the contract, and an annual salary of \$108,000 for the second year of the contract. Mr. Broadfoot will receive 112,500 options to purchase shares of LMI, and may earn up to an additional 100,000 options to purchase shares of

LMI according to a schedule of milestones. In place of the LMI options, the Company granted options to acquire 94,548 Common Shares to Mr. Broadfoot. LMI may grant to Mr. Broadfoot, at the discretion of the Compensation Committee, an annual bonus. In determining the amount of the annual bonus, the Compensation Committee will consider the performance of LMI during the fiscal year compared to the forecasted budget of LMI for that fiscal year. Among other things, LMI has agreed to reimburse Mr. Broadfoot for his reasonable expenses incurred in providing his services to LMI. The employment agreement contains certain restrictive covenants, including provisions precluding Mr. Broadfoot from competing with LMI for the term of the agreement and for 24 months thereafter, and provisions precluding disclosure of LMI's confidential information to third parties. LMI may terminate the agreement for cause. If Mr. Broadfoot's employment is terminated by LMI in breach of the agreement, or at any time within 180 days of a change of control of LMI, LMI will be obligated to pay Mr. Broadfoot all compensation due to Mr. Broadfoot in accordance with the agreement for the previous fiscal year multiplied by two. Refer to "Material Contracts". LMI is currently in the process of negotiating a renewal of this employment agreement.

Other Contracts

The Company is currently in the process of negotiating an employment agreement with each of John S. Kidder; Paul M. Tontsch; Nick MacKinnon; and C. Dale Lambert.

Related Party Transactions

On May 11, 1990, the Company entered into a royalty agreement with CST Coldswitch Holdings Inc., a company controlled by Mr. John S. Kidder. In consideration for granting a design license and a manufacturing and distribution license, the Company agreed to issue Common Shares to CST Coldswitch Holdings Inc., and to pay an annual royalty of one to two percent of the Company's gross proceeds on sales of the Company's products for each year (the "Royalty Agreement").

By Agreement dated 25 March, 1999, the Company has issued to CST Coldswitch Holdings Ltd. 200,000 Common Shares to cancel the Royalty Agreement. Refer to "Share Capital – Existing and Proposed Share Capital."

Pursuant to Purchase and Sale Agreements between the Company and each of John Kidder, Leanne Edwards and Donna Moroz, the Company acquired all of the issued and outstanding shares of CST Coldswitch Holdings Ltd. in exchange for the issuance of 1,400,000 Common Shares. As a result of the transaction, the Company owns all of the issued and outstanding shares of CST Coldswitch Holdings Inc., which in turn owns 1,400,000 Common Shares. Refer to "Escrow Shares".

As at the date of this Prospectus, the Company owes \$340,887 in management fees to J. Kidder & Associates (wholly owned by John Kidder). The amount outstanding is non-interest bearing and J. Kidder & Associates has indicated it will not seek repayment in the next fiscal year.

Proposed Compensation

The amounts payable may increase as and when the Company develops more positive cash flow and profitability from operations, and with the concurrence of the Board of Directors. The Board of Directors has created a Compensation Committee, comprised solely of outside and unrelated directors. The Compensation Committee and/or the Board of Directors determines the eligibility for, and the amounts of, any increases in compensation to be paid to the executive officers of the Company.

Within 120 days of the end of each financial year end of the Company, the Compensation Committee reviews the annual base salary of each of the executive officers of the Company.

Estimated Management Compensation Over Next 12 Months

Name and Position	Annual Remuneration	Additional Remuneration
John S. Kidder Chief Executive Officer President	\$ 114,000	\$ NIL
Barney Magnusson ⁽¹⁾ Chief Financial Officer	\$ 78,000	\$ NIL
Volf Smus Senior Scientist	\$ 48,000	\$ NIL
Melissa Crenshaw ⁽²⁾ Intellectual Property Manager	\$ 18,000	\$ NIL
Natalie Learmonth Controller	\$ 48,000	\$ NIL
Nick MacKinnon ⁽³⁾ Director of Research and Development	\$ 51,000	\$ NIL
Dale Lambert Operations	\$ 78,000	\$ NIL
Douglas Broadfoot Manager of Sales & Marketing	\$ 114,000	\$ NIL
Paul Tontsch ⁽⁴⁾ Director of Engineering	\$ 45,000	\$ NIL

(1) Barney Magnusson works on a part-time basis and devotes approximately 66% of his time to the Company.

(2) Melissa Crenshaw works on a part-time basis and devotes approximately 20% of her time to the Company.

(3) Nick MacKinnon works on a part-time basis and devotes approximately 20% of his time to the Company.

(4) Paul Tontsch works on a part-time basis and devotes approximately 20% of his time to the Company.

SHARE CAPITAL

Authorized Capital

The Company is authorized to issue 100,000,000 Common Shares, of which 10,338,209 Common Shares are issued and outstanding as at the date of this Prospectus of which the Company indirectly owns 1,400,000 of its own Common Shares.

Description of the Common Shares

The Common Shares are without par value. The holders of the Common Shares are entitled: (a) to dividends, if, as and when declared by the Board of Directors of the Company; (b) to receive those assets distributable to holders of Common Shares upon liquidation, dissolution or winding-up of the Company; and (c) to receive notice of and attend and vote at, all meetings of the shareholders of the Company. All of the Common Shares rank equally as to dividends, voting rights and any distribution of assets on winding-up or dissolution. Each Common Share carries with it the right to one vote.

There are no pre-emptive or conversion rights, and no provision for surrender, sinking or purchase funds. There are no special liquidation rights, subscription rights or redemption provisions. There are no founders, management or deferred shares that carry rights that differ from the rights attached to the Common Shares.

Provisions as to the modification, amendment or variation of the rights attached to the Common Shares are contained in the articles of the Company and the Company Act (British Columbia).

Existing and Proposed Share Capital

The following table sets out the Company's existing and proposed share capital:

	Number of Issued Common Shares	Price per Common Share	Total Consideration⁽¹⁾
Issued as of January 31, 1999	4,623,276 ⁽²⁾	N/A	\$4,124,090
Prior sale of Common Shares	2,768,368	\$0.50	\$1,384,200
Common shares issued to settle outstanding debt ⁽³⁾	684,000	\$0.744	\$508,650
Common Shares issued in cancellation of a royalty payment ⁽⁷⁾	200,000	N/A	\$1
Exercise of stock options on debt settlement	179,365	\$0.25	\$44,841
Common Shares issued to settle share issuance costs ⁽⁴⁾	300,000	\$0.50	\$150,000
Exercise of common share purchase warrants pursuant to a private placement in November 1999	159,200	\$0.50	\$79,600
Settlement of Debt ⁽⁸⁾	15,000	\$1.40	\$21,000
Common Shares issued as a signing bonus	9,000	\$0.50	\$4,500
Common Shares issued pursuant to acquisition of CST Coldswitch Holdings Ltd. which are beneficially held by the Company for cancellation ⁽⁹⁾	1,400,000	Nil	Nil
Issued as of June 19, 2000 ⁽⁵⁾	10,338,209	N/A	\$6,316,882
To be issued under the Offering	4,000,000	\$1.00	\$4,000,000
Total common shares to be issued and outstanding after the Offering⁽⁶⁾	14,338,209	N/A	\$10,316,882

(1) Total consideration represents gross cash proceeds to the Company. Financing fees have not been deducted and non-cash consideration has been excluded.

(2) For Common Share issuances prior to January 31, 1999, please refer to the attached financial statements. Excludes 95,599 Common Shares to be issued pursuant to the compulsory acquisition procedure for the remaining shares of LMI. Refer to "Business of the Company – Acquisitions and Dispositions".

(3) 396,470 Common Shares were issued pursuant to a settlement order dated December 24, 1999. Refer to "Legal Proceedings". These Common Shares are subject to escrow restrictions. Refer to "Share Capital – Escrow Shares". 287,530 Common Shares were issued to repay liabilities of the Company. None of the creditors were related parties to the Company. The value of these Common Shares was determined by arm's length negotiation between the parties.

(4) 200,000 Common Shares were issued to the Agent as consideration for services rendered pursuant to an agency agreement between the Company and the Agent dated November 3, 1999. These Common Shares are subject to voluntary pooling restrictions. Refer to "Share Capital – Corporate Finance Shares." 100,000 Common Shares were issued to Adapa Management Ltd. in consideration for corporate finance services. Refer to "Payments to Insiders and Promoters- Employment and Consulting Contracts". These Common Shares are subject to escrow restrictions. Refer to "Share Capital – Escrow Shares". The value of these Common Shares was determined by the board of directors of the Company based on the estimated fair market value of the Common Shares of the Company.

(5) Prior to the exercise of the outstanding common share purchase warrants and options. Refer to "Share Capital – Common Share Purchase Warrants". Excludes the 95,599 Common Shares which are to be issued pursuant to the compulsory acquisition procedure for the remaining shares of LMI. Refer to "Business of the Company – Acquisitions and Dispositions".

(6) This figure does not assume the exercise of the Agent's Warrant or the Greenshoe Option.

- (7) Issued pursuant to the cancellation of royalty agreement dated March 25, 1999. Refer to “Payments to Insiders and Promoters – Related Party Transactions.” The value of these Common Shares was based upon the costs incurred in the development of the Technologies.
- (8) Issued to a third party in repayment of a loan of LMI. The value of these Common Shares was determined by arm’s length negotiation between the parties.
- (9) Refer to “Payments to Insiders and Promoters – Related Party Transactions”.

Seed Share Resale Restrictions

All Common Shares (the “Seed Shares”) of the Company sold prior to the Offering are subject to the seed share resale restrictions of the Exchange. In addition to the seed share resale restrictions, holders of Seed Shares resident outside of British Columbia may be subject to statutory resale restrictions applicable to such holder. The purchase price of the Seed Shares and the date that they were purchased relative to the date of the receipt of the preliminary prospectus of the Company by the British Columbia Securities Commission, the Alberta Securities Commission and the Ontario Securities Commission (collectively, the “Commissions”) determines how quickly the purchasers of the Seed Shares in British Columbia may sell their Seed Shares after the Listing Date or after the date that a final receipt is issued for this Prospectus by the Commissions.

The Seed Shares are eligible for release in the numbers and on the dates set out below:

Date	Aggregate Number of Seed Shares Eligible for Release
Listing Date	6,528,907
Listing Date + three months	2,786,358
Listing Date + six months	340,981
Listing Date + nine months	340,981
Listing Date + 12 months	340,982
TOTAL	10,338,209⁽¹⁾

(1) 5,391,908 of these Common Shares are subject to escrow conditions. Refer to “Share Capital – Escrow Shares.”

(2) 2,270,076 of these Common Shares are subject to pooling restrictions. Refer to “Share Capital – Takeover Bid Shares”.

Stock Option Plan

The Plan was adopted by the board of directors of the Company on December 3, 2000. The Plan is subject to acceptance by the Exchange. Any options granted pursuant to the Plan may not be exercised until the Plan receives Exchange and shareholder approval. The effective date of the Plan is March 1, 2000.

Maximum Number

The maximum number of Common Shares reserved for issuance under the Plan, including options currently outstanding, is 2,000,000.

The Compensation Committee

The Plan will be administered by a stock option committee (the “Committee”) of the Board consisting of not less than two of its members. The Committee will administer the Plan on behalf of the Board in accordance with such terms and conditions as the Board may prescribe in accordance with the Plan. All decisions of the Committee shall be approved by a majority of its members.

Description of Stock Option Plan

The Plan provides that options may be granted to any employee, officer, director, management company employee or consultant of the Company or an affiliate of the Company.

The options issued pursuant to the Plan will be exercisable at a price which is not less than the fair market value of the Common Shares at the time the option is granted. So long as the Company is listed on the Exchange, "Fair Market Value" will be determined by taking the closing price (the "Market Price") of the Common Shares immediately preceding the date of the news release that announces the grant of the option and, at the discretion of the Committee, discount the Market Price in accordance with the policies of the Exchange.

Options under the Plan will be granted for a term not to exceed five years from the date of their grant, unless approval for a longer term is received from such Exchange. All options will terminate on the earlier of the expiry of their term; the date of termination of an optionee's employment, service, office or position as director, if terminated for just cause, otherwise 90 days following termination; and the date of any attempted disposition of any option (the same being non-transferable and non-assignable).

Options granted under the Plan will be subject to such vesting schedule as the Committee may determine, subject to a minimum vesting schedule pursuant to which not more than 25% of the initial aggregate number of Common Shares which may be purchased under the option may vest in any six-month period, on a cumulative basis. In the event that an option is terminated prior to expiry of its term due to certain corporate events, all options then outstanding shall become immediately exercisable for 30 days after notice thereof, notwithstanding the original vesting schedule.

Options will also be non-assignable and non-transferable, provided that they will be exercisable by an optionee's legal heirs, personal representatives or guardians for up to 12 months following the death of an optionee.

Subject to regulatory and shareholder approval, the maximum number of Common Shares to be reserved for issuance under the Plan, including options currently outstanding, will not exceed 2,000,000. The number of Common Shares reserved for issuance to any one person on a yearly basis cannot exceed five percent of the number of issued and outstanding Common Shares at the time of the grant of the option.

If a material alteration in the capital structure of the Company occurs as a result of a recapitalization, stock split, reverse stock split, stock dividend, or otherwise, the Committee shall make adjustments to the Stock Option Plan and to the options then outstanding under it as the Committee determines to be appropriate and equitable under the circumstances, unless the Committee determines that it is not practical or feasible to do so, in which event the options granted under the Plan will terminate as set forth above.

Amendment of the Plan

The Board of Directors or the Committee may from time to time amend the Plan and the terms and conditions of any option thereafter granted and, without limiting the generality of the foregoing, may make such amendment for the purpose of meeting any changes in any relevant law, rule or regulation applicable to the Plan, any option or the Common Shares, or for any other purpose which may be permitted by all relevant laws, regulations, rules and policies provided always that any such amendment shall not alter the terms or conditions of any option or impair any right of any option holder pursuant to any option awarded prior to such amendment.

Options to Purchase Common Shares

As at the date hereof, the following stock options have been granted by the Board of Directors of the Company:

Name	Number of Options
Avis, J.	42,500
Blair, L.	37,500
Blair, R.	37,500
Breault, R.	35,000
Broadfoot, D.	94,548
Brown, D.	5,343
Collins, A.	27,072
Crenshaw, M.	33,848
Fairchild, R.	8,021
Husband, D.	15,000
Kelly, C.	22,744
Kidder, J.	229,563
Kidder, P.	34,702
Lambert, D.	40,000
Learmonth, N	35,547
MacKinnon, N.	30,000
Magnusson, B.	30,000
Martin, T.	10,000
Montgomery, D.	15,000
Peterson, B.	3,333
Podersky-Cannon, G.	14,438
Priestman, D.	15,240
Rix, D.	40,000

Smus, V.	32,995
Swift, J.	45,000
Tontsch, P.	45,978
Wynne-Edwards, H.	37,500
Total Options	1,018,372

All of the options are exercisable at \$1.00 per share and are subject, at a minimum, to the vesting requirements set out in the Plan. Options to acquire 68,223 Common Shares expire on January 31, 2001, 8,955 Common Shares expire on January 31, 2002, 61,194 Common Shares expire on January 31, 2003 and 880,000 Common Shares expire on April 1, 2005.

Agent's Warrant

The Company has granted to the Agent the Agent's Warrant to purchase such number of Common Shares as is equal to 20% of the Shares issued pursuant to the Offering at any time up to the close of business two years from the Listing Date at a price of \$1.00 per Share.

There are no assurances that the Agent's Warrant described above will be exercised in whole or in part.

Common Share Purchase Warrants

During 1999 the Company issued as part of several non-brokered private placement 388,706 non-transferable common share purchase warrants to purchase up to 388,706 Common Shares exercisable until the first anniversary date of the Listing Date, at a price of \$0.50 per Common Share. As of the date hereof, warrants to purchase 229,506 Common Shares remain outstanding.

Fully Diluted Share Capital

Common Shares Issued or Allotted	Number of Common Shares	Percentage of Total
Issued as of June 9, 2000	10,338,209	57.54%
Offered under the Prospectus	4,000,000	22.26%
Shares reserved for future issuance as of June 9, 2000 ⁽¹⁾	3,629,506	20.20%
TOTAL:	17,967,715	100%

⁽¹⁾ This Prospectus qualifies the issuance of the Agent's Warrant and the sale of any Common Shares acquired by the Agent pursuant to its guarantee. This Prospectus also qualifies the Greenshoe Option. This figure also includes 2,000,000 Common Shares reserved pursuant to Stock Option Plan and 229,506 Common Shares reserved pursuant to outstanding share purchase warrants. Refer to Share and Loan Capital Structure.

Dilution

The financial risk of the Company's future activities will be borne to a significant degree by purchasers of Common Shares under the Offering who, upon its completion, will incur immediate and substantial dilution. The following table sets forth the dilution per Share as at January 31, 2000, after deducting commission and issue costs, and based on the balance sheet of the Company as at January 31, 2000:

Offering price per Share	\$1.00
Net tangible book value per Share before the Offering	(\$0.02)
Increase in net tangible book value attributable to this Offering	\$0.28
Net tangible book value per Share after giving effect to the Offering	\$0.26
Dilution per Share to purchasers	\$0.74
Percentage of dilution to purchasers in relation to the Offering price	73.62%

Principal Holders of Common Shares

As at the date of this Prospectus, the Company has a total of 10,338,209 Common Shares issued and outstanding of which 1,400,000 are indirectly held by the Company. On completion of the Offering, and assuming that the Agent's Warrant and the Greenshoe Option are not exercised, the Company will have a total of 14,338,209 Common Shares issued and outstanding. To the knowledge of the directors and senior officers of the Company, the following are the shareholdings of the shareholders which, to the knowledge of the Company, beneficially own, directly or indirectly, or have control or direction over more than 10% of the issued Common Shares:

Name and Municipality of Residence	Number of Common Shares Beneficially Owned or Controlled	Percentage of Issued Common Shares as of the Date of this Prospectus	Percentage of Issued Common Shares Upon Completion of this Offering⁽¹⁾
David C. Dueck⁽²⁾ Vancouver, BC	1,673,910	16.19%	11.67%
CST Coldswitch Technologies Inc.⁽³⁾ Vancouver, BC	1,400,000	13.54%	9.76%
John Kidder Vancouver, BC	1,184,130	11.45%	8.26%

⁽¹⁾ Upon completion of the Offering assuming that the Agent's Warrant and the Greenshoe Option are not exercised.

⁽²⁾ Includes Common Shares beneficially owned through Grantham Holdings Ltd., McAllister Industries Ltd. and DCD Ventures (VCC) Ltd. Refer also to "Legal Proceedings".

⁽³⁾ Common Shares beneficially owned through CST Coldswitch Holdings Ltd.

As of the date of this Prospectus, the control persons, promoter, directors and senior officers of the Company, as a group, beneficially own, directly or indirectly, or have control or direction over 3,499,706 Common Shares and the Company indirectly owns 1,400,000 Common Shares of the 10,338,209 Common Shares issued and outstanding, representing 33.85% and 13.54% respectively, of the issued and outstanding Common Shares. On completion of the Offering and assuming no exercise of the Agent's Warrant and the Greenshoe Option, 14,338,209 Common Shares will be issued and outstanding and, the control person, promoter, directors and senior officers of the Company will then beneficially own, directly or indirectly, or have control or direction over 3,499,706 Common Shares the Company will indirectly own 1,400,000 Common Shares, representing 24.41% and 9.76% respectively, of the then issued and outstanding Common Shares.

Escrow Shares*Escrow Shares*

The Company has issued a total of 5,391,908 Common Shares (the “Escrow Shares”) of the Company to principals of the Company, as that term is defined in the Proposal for Uniform Terms of Escrow Applicable to Initial Public Distributions published by the Canadian Securities Administrators on March 17, 2000 (the “Escrow Policy”).

Pursuant to the Escrow Policy all Common Shares held by the following persons must be placed in escrow:

- (a) a promoter of the Company;
- (b) a director or senior officer of the Company or of a material operating subsidiary of the Company;
- (c) a person that:
 - (i) beneficially owns, directly or indirectly,
 - (ii) has control or direction over, or has a combination of direct or indirect beneficial ownership of an or control or direction over, securities of the Company carrying more than 20% of the voting rights attached to all the Company issued and outstanding Common Shares immediately after completion of the Offering;
- (d) a person that:
 - (i) beneficially owns, directly or indirectly,
 - (ii) has control or direction over, or
 - (iii) has a combination of direct or indirect beneficial ownership or and control or direction over securities of the Company carrying more than 10% of the voting rights attached to all the Company’s issued and outstanding Common Shares immediately after completion of the offering, and
 - (iv) has appointed or elected or has the right to appoint or elect a director or senior officer of the Company, or
 - (v) one or more directors or senior officers of the Company is also a director or officer of, or beneficially owns, directly or indirectly or has control or direction over, or a combination of beneficial ownership of and control or direction over, more than 10% of the outstanding Common Shares of that Company;
- (e) a corporation 20% or more of the voting shares of which are beneficially owned, directly or indirectly by any one or more of the persons referred to in subsections (a) to (d), or over which one or more of the persons referred to in those subsections has or have control or direction (or a combination of beneficial ownership and control or direction); or

(f) an associate of a person referred to in subsections (a) to (e).

(collectively, the “Principals”).

As at the date of this Prospectus, the holders of the Escrow Shares are as follows:

Name of Principal	Number of Escrow Shares Held
John Kidder ^{(1) (2) (5)}	1,184,130
James Avis ⁽⁴⁾	50,000
Lauren Blair ⁽⁴⁾	150,000
Robert Blair ⁽⁴⁾	150,000
Rix Professional Medical Corporation ⁽⁴⁾⁽⁶⁾	91,666
Terracy Inc. ⁽⁴⁾⁽⁶⁾	100,000
Adapa Management Ltd. ⁽³⁾⁽⁸⁾	100,000
CST Coldswitch Holdings Ltd. ^{(5) (9)}	1,400,000
Grantham Holdings Ltd. ⁽⁵⁾	1,223,426
DCD Ventures (VCC) Ltd. ⁽⁵⁾	325,000
David C. Dueck ⁽⁵⁾	112,187
McAllister Industries Ltd. ⁽⁵⁾	13,297
Siri Heiberg ⁽⁷⁾	8,082
Donna Moroz	186,620
Leanne Edwards	297,500

⁽¹⁾The promoter of the Company.

⁽²⁾A director and officer of the Company.

⁽³⁾An officer of the Company.

⁽⁴⁾A member of the board of directors of the Company.

⁽⁵⁾A control person.

⁽⁶⁾A corporation 20% or more of the voting shares of which are beneficially owned, by a director of the Company.

⁽⁷⁾An associate of a director of the Company.

⁽⁸⁾A corporation 20% or more of the voting shares of which are beneficially owed, directly by an officer of the Company.

⁽⁹⁾Wholly owned by the Company.

Under the terms of the Escrow Policy, the Company will, at the time of the Offering, be categorized as an “emerging” issuer. Common Shares held by the Principals are, subject to graduation (discussed below), subject to a three year time release with securities exempt, or released, from escrow as follows:

Date	% Shares Subject to Exemption or Release
Listing Date	10%
6 months from Listing Date	15%
12 months from Listing Date	15%
18 months from Listing Date	15%
24 months from Listing Date	15%
30 months from Listing Date	15%
36 months from Listing Date	15%

The Company will, subject to the Exchange listing the Company as an established corporation, graduate from an “emerging” issuer to an “established” issuer upon:

1. the Common Shares being listed on the Toronto Stock Exchange;
2. the Common Shares being listed on the Exchange and the Company is classified as a Tier 1 issuer; or
3. the Common Shares being listed on the Montreal Exchange or the Winnipeg Stock Exchange and the Company meets requirements equivalent to the Exchange’s Tier 1 listing requirements.

If the Company graduates under the Escrow Policy within 18 months from listing:

1. that number of Escrow Shares that would, to that date, have been eligible for release from escrow if the Company had been an established issuer on its Listing Date will immediately be released from escrow; and
2. one-third of each Principal’s Escrow Shares and one-third of each Principal’s options, if not previously released, will be released:
 - a. 6 months after the Listing Date;
 - b. 12 months after the Listing Date; and
 - c. 18 months after the Listing Date.

If the Company graduates 18 months or more after its Listing Date, all Escrow Shares will immediately be released from escrow.

Before any Escrow Shares can be released, two directors or senior officers of the Company must certify to the escrow agent that the assets, property or business of the Company have not been abandoned and that operations or development of such asset, property or business have not been discontinued.

Transfers to continuing or incoming directors and senior officers will be permitted with the approval of the Board of Directors. Transfers upon bankruptcy and to RRSPs and RRIFs are also permitted as set out in the Escrow Policy.

Upon the death of a Principal who is an individual, the deceased Principal's Escrow Shares may be released provided that the Company at least ten days prior to the date of the release, files with the securities regulatory authorities of the jurisdictions in which the Company is a reporting issuer and the Canadian stock exchanges on which the Common Shares are listed, a written notice disclosing details of the impending release of the Escrow Shares.

Subject to any legal or other restrictions on transferability, upon the bankruptcy of a holder of the Escrow Shares, Escrow Shares may be transferred to the trustee in bankruptcy or other person or corporation legally entitled to the Escrow Shares, provided that the Escrow Shares remain in escrow, subject to the same terms of escrow as were applicable prior to the bankruptcy.

Corporate Finance Shares

Pursuant to an agency agreement between the Company and the Agent dated for reference November 3, 1999 as amended on December 15, 1999, the Company appointed the Agent to distribute up to 2,000,000 Common Shares at a purchase price of \$0.50 per Common Share. The private placement was fully subscribed and closed on December 20, 1999. In consideration of the services performed by the Agent, the Company paid to the Agent a commission of 8% of the gross proceeds received by the Company from the sale of the offered shares; issued and allotted to the Agent 200,000 Common Shares (the "Corporate Finance Shares"); paid to the Agent an administration fee of \$5,000 and paid to the Agent a fiscal advisory services fee in the amount of \$30,000, of which up to \$10,000 may be refunded from commissions payable in connection with this Offering. Pursuant to the terms of an escrow agreement among the Company, the Agent and Catalyst Corporate Finance Lawyers (the "Escrow Agent") dated November 19, 1999, the Agent agreed to deposit 150,000 of the Corporate Finance Shares in escrow with the Escrow Agent (the "Corporate Finance Escrow Shares"). The Corporate Finance Escrow Shares are to be released to the Agent upon the completion of this Offering or upon the Company and the Agent jointly agreeing that the Corporate Finance Escrow Shares should be released. The Corporate Finance Escrow Shares will be canceled in the event that the Agent terminates its obligations under the Agency Agreement on the basis of its assessment of the market for the Common Shares.

Takeover Bid Shares

Pursuant to the takeover bid circular of the Company dated October 29, 1999 as subsequently amended, each shareholder of LMI who accepted the takeover bid offer and exchanged their common shares of LMI for Common Shares of the Company agreed to a pooling restriction as follows:

- 5% of the Common Shares to be released upon the Listing Date of the Common Shares on a stock exchange;
- 20% of the Common Shares to be released 90 days after the Listing Date;
- 25% of the Common Shares to be released 180 days after the Listing Date;
- 25% of the Common Shares to be released 270 days after the Listing Date; and
- the balance to be released 360 days after the Listing Date.

Dividend Record

The Company has not paid any dividends on its Common Shares. It is the present policy of the Company to retail all earnings to support the growth of its business. Accordingly, it is expected that the Company will not pay dividends to the holders of the Shares in the foreseeable future. Any future payments of dividends will be determined by the Board of Directors on the basis of the Company's earnings and financial requirements at that time.

PLAN OF DISTRIBUTION

Offering

By a sponsorship and agency agreement dated March 10, 2000 (the "Agency Agreement"), the Company appointed the Agent as its exclusive agent to offer the Shares for sale on a commercial best efforts basis. Following the date (the "Effective Date") on which the final receipt for this Prospectus is issued by the last of the Commissions and after receiving conditional acceptance from the Exchange, the closing (the "Closing") of the Offering will take place on a day to be determined by the Agent and the Company, no earlier than ten business days after the Agent has mailed this Prospectus to purchasers under the Offering, and on or before the date which is the earlier of: (a) 90 days after the Effective Date; and (b) 12 months after the date of the issue by the last of the Commissions of the receipt for the preliminary prospectus.

The Agent has guaranteed to purchase any of the Shares offered under this Prospectus which remain unsubscribed for on the Closing.

In consideration of the services performed by the Agent in connection with the Offering, the Company has agreed to pay to the Agent a cash commission equal to 7.5% of the aggregate gross proceeds raised from the sale of the Shares under the Offering, including Common Shares issued pursuant to the Greenshoe Option. The commission to be paid to the Agent was established through negotiation between the Company and the Agent. The Agent will also be issued the Agent's Warrant exercisable to purchase up to such number of Common Shares (the "Agent's Warrant Shares") as is equal to 20% of the Shares issued under the Offering for a period of two years from the Listing Date at a price of \$1.00 per Agent's Warrant Share.

The Agent's Warrant contains, among other things, anti-dilution provisions and provisions for the appropriate adjustment in the class, number and price of Common Shares issuable pursuant to any exercise thereof upon the occurrence of certain events, including any subdivision, consolidation or reclassification of the Common Shares or payment of stock dividends or the amalgamation of the Company.

The Agent may terminate its obligations under the Agency Agreement at any time before the opening of the market on the day the Common Shares are listed and commence trading on the Exchange if there is an occurrence of any nature which, in the opinion of the Agent, seriously affects or will seriously affect the financial markets, the business of the Company or the ability of the Agent to perform its obligations under the Agency Agreement.

The Company has granted the Agent a right of first refusal to provide future equity financing to the Company for a period of twelve months from the Listing Date.

The Company has granted the Agent a Greenshoe Option to purchase such number of Common Shares as is equal to 15% of the Shares issued under the Offering at a price per Common Share equal to the Offering price per Share. The Agent will advise the Company and the Exchange of the number of Shares subject to the Greenshoe Option within five business days after the Closing and before the Common Shares are listed and commence trading on the Exchange. The Agent may cover over-allotments by exercising the Greenshoe Option within 60 calendar days of the Offering Day. The Agent is not obliged to cover over-allotments by exercising the Greenshoe Option. The Agent may, in its discretion, cover over-allotments by purchasing Common Shares in the open market. This Prospectus qualifies the issuance of the Greenshoe Option.

The Agent reserves the right to offer selling group participation in the normal course of the brokerage business to selling groups of other licensed broker-dealers, brokers and investment dealers, who may or may not be offered part of the commissions or Agent's Warrant derived from the Offering.

Extrajurisdictional Offerings

Pursuant to the Agency Agreement, the Company and the Agent have agreed to offer the Common Shares hereunder to prospective purchasers resident in British Columbia, Alberta and Ontario.

SPONSORSHIP AGREEMENT

Pursuant to the terms of the Agency Agreement, the Agent will act as the sponsor for the Company on the Exchange. Pursuant to the terms of the Agency Agreement the Company has agreed to pay to the Agent a sponsorship fee of \$15,000 plus G.S.T. with respect to the application of the Company to list the Common Shares on the Exchange, and in consideration of the Agent's services in connection with the co-ordination and review of the Offering and this Prospectus. The Company will also reimburse the Agent for reasonable expenses incurred by the Agent in connection with its sponsorship duties.

INVESTOR RELATIONS AGREEMENTS

The Company has not entered into any written or oral agreement or understanding with any person to provide investor relations services to the Company.

RELATIONSHIP BETWEEN COMPANY OR SELLING SECURITY HOLDER AND AGENT

The Company and Canaccord Capital Corporation are not related parties or connected parties, as defined in the British Columbia Securities Rules, the Ontario Securities Act General Regulation and the Alberta Securities Commission Policy Statements, of the Agent.

RELATIONSHIP BETWEEN COMPANY AND PROFESSIONAL PERSONS

James L. Heppell is a partner in the law firm of Catalyst Corporate Finance Lawyers, which are the corporate finance counsel of the Company. James L. Heppell beneficially owns 6,875 Common Shares and controls a further 3,308 Common Shares, and his spouse Leslie Ellis owns 650 Common Shares. Catalyst Corporate Finance Lawyers beneficially owns 32,500 Common Shares.

LEGAL PROCEEDINGS

In 1996 and 1997, Mr. David C. Dueck, Grantham Holdings Ltd. And McAllister Industries Ltd., (corporations both controlled by Mr. Dueck) (collectively, "Dueck") loaned funds to LMI and to the Company, secured by the expected receipt by LMI and the Company of Investment Tax Credits ("ITCs") in respect of Scientific Research and Experimental Development activities (the "SRED Work") carried out by the Company and LMI. A preliminary finding was received from Revenue Canada, in the fall of 1997, that ITCs would not be allowed for the majority of the SRED work.

LMI and the Company reached an arrangement with Dueck in the fall of 1997 to exchange 1,103,847 shares of LMI for \$375,308 of the debt and to reschedule payment of the balance. In March 1998, Dueck decided not to proceed with the arrangement, and Dueck sued the Company and LMI for \$626,609, plus interest where applicable. Pursuant to a settlement order dated December 24, 1999, this action was settled by a cash payment of \$157,083 and the issuance of 1,147,086 shares of the Company to Grantham Holdings Ltd., and the transfer to the Company of the 1,103,847 shares of LMI issued pursuant to the November 1997 arrangement. Refer to "Share Capital – Principal Holdings of Common Shares".

AUDITORS

The auditors for the Company are KPMG LLP, Suite 400 – North Tower, 5811 Cooney Road, Richmond, BC, V6X 3M1.

REGISTRAR AND TRANSFER AGENT

The Company has retained Pacific Corporate Trust Company of Suite 830 – 625 Howe Street, Vancouver, British Columbia, V6C 3B8 to act as registrar and transfer agent.

MATERIAL CONTRACTS

Except for contracts entered into in the ordinary course of business, contracts which the Company or its subsidiaries have entered into during the past two years and which may reasonably be regarded as material to the Offering, are as follows:

1. Draft Sponsorship and Agency Agreement between the Company and the Agent dated for reference March 10, 2000. Refer to “Plan of Distribution”.
2. Draft Escrow Agreement among the Company, Pacific Corporate Trust Company and certain shareholders of the Company dated May 1, 2000. Refer to “Payment to Insiders and Promoters – Escrow Shares”.
3. Agency Agreement between the Company and the Agent dated November 3, 1999, as amended on December 15, 1999. Refer to “Use of Proceeds – Other Financing: Private Placement”.
4. Escrow Agreement among the Company, Catalyst Corporate Finance Lawyers and the Agent dated November 19, 1999. Refer to “Use of Proceeds – Other Financing: Private Placement and “Corporate Finance Shares”.
5. Engagement Agreement dated for reference June 18, 1999 between the Company and the Agent. Refer to “Plan of Distribution”.
6. Agreement dated June 15, 1999 between the Company and LMI and Grantham Holdings Ltd., McAllister Industries Ltd., DCD Ventures (VCC) Ltd. and David C. Dueck with respect to the settlement of debt.
7. Agreement dated March 25, 1999 between the Company and CST Coldswitch Holdings Ltd. regarding issuance of 200,000 Common Shares to cancel a Royalty Agreement. Refer to “Related Party Transactions”.
8. Form of Stock Option Plan of the Company dated December 16, 1999. Refer to “Payments to Insiders and Promoters - Stock Option Plan”.

Copies of the above contracts may be inspected at the registered and records office of the Company at 1100 – 1055 West Hastings Street, Vancouver, British Columbia V6E 2E9 during normal business hours, during the period of distribution of the Shares and for 30 days thereafter.

PURCHASER’S STATUTORY RIGHTS

The Securities Act (British Columbia), the Securities Act (Alberta) and the Securities Act (Ontario) (collectively, the “Acts”) provide purchasers with the right to withdraw from an agreement to purchase securities within two business days after receipt or deemed receipt of a prospectus and any amendment. The Acts further provide a purchaser with remedies for rescission or 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 Acts. The purchaser should refer to sections 83, 131, 135 and 140 of the Securities Act (British Columbia) and the comparable sections of the Securities Act (Alberta) and the Securities Act (Ontario) for the particulars of these rights or consult with a legal advisor.

FINANCIAL STATEMENTS OF THE COMPANY

Audited Financial Statements for the Financial Years Ended
January 31, 1996, January 31, 1997, January 31, 1998, January 31, 1999 and January 31, 2000

CST COLDSWITCH TECHNOLOGIES INC.

Consolidated Financial Statements

January 31, 2000, 1999, 1998, 1997 and 1996

INDEX

	<u>Page</u>
Auditors' Report	1
Financial Statements	
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Deficit	3
Consolidated Statements of Cash Flows	4
Notes to Consolidated Financial Statements	5

CST COLD SWITCH TECHNOLOGIES INC.

Consolidated Balance Sheets

	January 31,	
	2000	1999
Assets		
Current assets		
Cash	\$ 528,079	\$ 34,315
Accounts receivable	65,804	13,257
Income taxes receivable (note 4)	—	320,363
Prepaid expenses and deposits	137,141	6,868
	731,024	374,803
Capital assets (note 5)	49,969	67,593
Technology license	12,007	12,006
	\$ 793,000	\$ 454,402
Liabilities and Deficiency in Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 411,571	\$ 643,732
Notes payable (note 6)	—	125,751
Current portion of long-term debt (note 8)	135,837	619,359
	547,408	1,388,842
Long-term debt (note 8)	20,000	20,000
Advances from related parties (note 7)	387,663	402,501
Deficiency in assets		
Share capital (note 9)	5,949,983	4,124,090
Deficit	(6,112,054)	(5,481,031)
	(162,071)	(1,356,941)
Operations (note 1)		
Commitments and contingencies (note 12)		
Subsequent events and proposed transactions (note 13)		
	\$ 793,000	\$ 454,402

See accompanying notes to consolidated financial statements.

On behalf of the Board

"John S. Kidder" Director "James Avis" Director

CST COLD SWITCH TECHNOLOGIES INC.

Consolidated Statements of Operations and Deficit

	Years ended January 31,				
	2000	1999	1998	1997	1996
Expenses					
Amortization	\$ 17,624	\$ 23,132	\$ 30,267	\$ 18,051	\$ 9,513
General and administration					
Administration and general	80,079	150,884	85,630	162,875	75,654
Professional fees	35,203	67,169	92,369	129,672	37,292
Wages and management fees (note 11)	325,094	230,724	302,292	380,412	201,056
Shareholder relations	16,000	-	-	-	-
Selling and marketing					
Employee remuneration	128,818	109,500	76,010	58,093	10,542
Marketing expenses	19,470	12,621	37,643	-	13,730
Research and development					
Employee remuneration	134,988	85,904	310,632	445,272	246,458
Other expenses	180,984	103,081	251,695	740,048	136,155
Less: Government assistance	(230,262)	(17,337)	(407,961)	(134,021)	(41,633)
Less: Recovery of expenses	-	(24,608)	-	-	-
Operating expenses	707,998	741,070	778,577	1,800,402	688,767
Interest on long-term debt	(85,364)	(52,314)	(66,471)	(33,033)	(11,742)
Interest and other income	37,348	9,680	-	-	5,836
Debt settlement	124,991	-	-	-	-
Net loss	(631,023)	(783,704)	(845,048)	(1,833,435)	(694,673)
Deficit, beginning of year	(5,481,031)	(4,697,327)	(3,852,279)	(2,018,844)	(1,324,171)
Deficit, end of year	\$ (6,112,054)	\$ (5,481,031)	\$ (4,697,327)	\$ (3,852,279)	\$ (2,018,844)

See accompanying notes to consolidated financial statements.

CST COLD SWITCH TECHNOLOGIES INC.

Consolidated Statements of Cash Flows

	Years ended January 31,				
	2000	1999	1998	1997	1996
CASH PROVIDED BY (USED IN)					
Operating activities					
Net loss	\$ (631,023)	\$ (783,704)	\$ (845,048)	\$ (1,833,435)	\$ (694,673)
Non-cash items					
Amortization	17,624	23,132	30,267	18,051	9,513
Change in non-cash operating working capital					
Accounts receivable	(52,547)	(7,259)	8,609	33,029	148,066
Income taxes receivable	320,363	-	(320,363)	-	-
Prepaid expenses and deposits	(33,097)	(1,777)	6,930	(9,846)	(1,308)
Accounts payable and accrued liabilities	47,144	227,717	101,040	234,206	60,292
	(331,536)	(541,891)	(1,018,565)	(1,557,995)	(478,110)
Investing activities					
Advances to parent company	-	-	-	(35)	(11,961)
Purchase of capital assets	-	(4,463)	(12,705)	(112,523)	-
	-	(4,463)	(12,705)	(112,558)	(11,961)
Financing activities					
Advances received from related parties	-	-	19,670	19,146	-
Payments to related parties	(14,838)	(1,056)	-	-	(132,653)
Repayment of notes payable	(125,751)	(3,500)	(5,000)	-	-
Repayment of long-term debt	(188,337)	(74,198)	(29,950)	(577,495)	(45,471)
Issuance of long-term debt	-	297,450	399,562	900,691	407,464
Increase in deferred financing costs	(97,176)	-	-	-	-
Proceeds from issuance and subscription of share capital	1,463,801	344,205	685,727	1,433,345	333,000
Share issue costs	(212,399)	-	(36,249)	(173,534)	-
	825,300	562,901	1,033,760	1,602,153	562,340
Increase (decrease) in cash	493,764	16,547	2,490	(68,400)	72,269
Cash, beginning of year	34,315	17,768	15,278	83,678	11,409
Cash, end of year	\$ 528,079	\$ 34,315	\$ 17,768	\$ 15,278	\$ 83,678

See accompanying notes to consolidated financial statements.

Supplementary information (note 3).

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

The Company was incorporated under the laws of British Columbia and is in the business of developing and exploiting new optical switching technology for industrial applications.

1. Operations

The financial statements have been prepared on the going concern basis which contemplates that the Company will realize its assets and discharge its liabilities in the normal course of business. The application of the going concern concept is dependent on the Company's ability to generate future profitable operations and receive continued financial support from its shareholders as required. Management is of the opinion that sufficient working capital will be obtained from operations, external financing and/or the sale of interests in the technology to meet the Company's liabilities and commitments as they become payable (see note 13).

2. Significant accounting policies

(a) Basis of presentation

These financial statements consolidate the accounts of CST Coldswitch Technologies Inc. and its subsidiary companies.

On December 17, 1999, the Company completed a takeover bid and acquired 96.9% of the common shares of LMI Lightwave Medical Industries Limited ("LMI") by issuing 2,270,076 shares of the Company at a rate of one common share for every four common shares of LMI that were tendered. The Company has made an application to acquire the remaining LMI common shares not tendered.

Prior to the acquisition, the Company and LMI were under common management control and had common core technology. LMI was also originally created as a spin off of the Company. Consequently, the acquisition has been accounted for on a continuity of interests basis whereby these consolidated financial statements reflect the combined historical carrying values of the assets, liabilities and shareholders' equity, and the combined historical operating results of the two companies for each of the years presented.

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

2. Significant accounting policies, continued

(a) Basis of presentation, continued

The net assets of each company, excluding intercompany balances, as at November 30, 1999 were as follows:

	CST Coldswitch Technologies Inc. (unaudited)	LMI Lightwave Medical Industries Limited (unaudited)
Total assets	\$ 324,210	\$ 128,073
Total liabilities	527,018	378,722
Net assets	\$ (202,808)	\$ (250,649)

The net loss of each company, excluding intercompany transactions, for the period from February 1, 1999 to November 30, 1999 was as follows:

	CST Coldswitch Technologies Inc. (unaudited)	LMI Lightwave Medical Industries Limited (unaudited)
Net loss	\$ (304,821)	\$ (167,315)

(b) Use of estimates

The preparation of these 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 at the date of the financial statements, the reported revenues and expenses during the reporting periods and the disclosure of contingent assets and liabilities. Significant areas requiring the use of management estimates relate to the determination of useful lives of capital assets for purposes of amortization and the collectibility of accounts receivable and income taxes receivable. The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

2. Significant accounting policies, continued

(c) Capital assets

Capital assets are initially recorded at cost. Amortization is subsequently provided on the declining balance basis at the following annual rates:

Lab equipment	20%
Office furniture and equipment	20%
Production equipment	30%

In the year of acquisition, the capital assets are amortized at one half of the stated rates.

(d) Technology license

The Company has acquired a license to use proprietary fibre optic switching technology in any application. In addition, patents underlying the proprietary fibre optic switching technology were assigned to the Company in 1998 for consideration totaling \$11,996 representing costs of technology patent application.

(e) Research and development costs

Research costs are expensed as incurred. Development costs are expensed as incurred unless they meet certain specified criteria for deferral and amortization. The Company has not deferred any development costs in the current period as the criteria for deferral were not met.

(f) Government assistance

The Company makes periodic applications for financial assistance under available government incentive programs including Scientific Research and Experimental Development investment tax credits. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expenditures and other current expenses is recorded as a reduction of expenses when the related expenditures are incurred. The benefits of investment tax credits are recognized when there is reasonable assurance that the tax credits will be realized. Reasonable assurance is deemed to have occurred when the relevant tax authorities have indicated that the Company's research and development activities qualify as Scientific Research and Experimental Development.

During the year, the Company received investment tax credits of \$230,262 (1999 - \$17,337), which were not previously accrued. All government assistance is related to expenses. Accordingly, the government assistance has been recorded as a reduction of expenses.

(g) Share issue costs

The costs of issuing common shares, net of income tax recoveries thereon, are applied to reduce the stated value of such shares.

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

2. Significant accounting policies, continued

(h) Translation of foreign currencies

All monetary assets and liabilities denominated in a currency other than Canadian dollars have been translated into Canadian dollars at the rate of exchange in effect at the balance sheet date. Other assets, revenue and expense items are translated at the rates prevailing at their respective transaction dates. Gains and losses resulting from foreign currency translation are reflected in earnings for the period.

(i) Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for the current period.

3. Adoption of new accounting standard

In 1999, the Company adopted Canadian Institute of Chartered Accountants ("CICA") Section 1540, Cash Flow Statements, which modifies the presentation of information in the consolidated statement of cash flows. These changes generally result in the exclusion of non-cash transactions from the statement and require them to be reported separately. Adoption of the new standard has not otherwise impacted the measurement or recognition of transactions. As a result of the adoption of the cash flow statement, supplementary disclosure and non-cash financing and investing activities excluded from the statement of cash flows are as follows:

	Years ended January 31,				
	2000	1999	1998	1997	1996
Cash paid for					
Interest	\$ 39,678	\$ 7,097	\$ 12,980	\$ 26,819	\$ 1,000
Income taxes	-	-	-	-	-
Non-cash financing and investing activities					
Conversion of due from parent company into technology license	-	-	11,996	-	-
Common shares issued in settlement of debt	574,491	649,093	-	-	31,573
Common shares to be issued to settle share issue costs	150,000	-	-	-	-

4. Income taxes receivable

The income taxes receivable related to investment tax credits earned as a result of research and development activities carried on by the Company.

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

5. Capital assets

	2000			1999		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Lab equipment	\$ 32,328	\$ 15,114	\$ 17,214	\$ 32,478	\$ 10,772	\$ 21,706
Office furniture and equipment	14,741	10,249	4,492	14,658	9,146	5,512
Production equipment	101,157	72,894	28,263	101,157	60,782	40,375
	\$ 148,226	\$ 98,257	\$ 49,969	\$ 148,293	\$ 80,700	\$ 67,593

6. Notes payable

Notes payable were non-interest bearing and were due in 1998 to shareholders of the Company.

7. Advances from related parties

Advances from related parties are due to a director and officer and an immediate family member and are non-interest bearing. The director and officer has indicated that he will not demand repayment in the next fiscal year.

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

8. Long-term debt

	2000	1999
Notes payable, non-interest bearing and repayable at a rate of 3% of gross sales.	\$ 20,000	\$ 20,000
Notes payable to directors, a shareholder and related individuals, bearing interest at prime plus 7.5%, secured by the Company's claim for refundable investment tax credits arising from Scientific Research and Experimental Development. The notes are due at the earlier of 10 days after the receipt of the refundable amounts and April 30, 1999.	—	185,363
Notes payable to a shareholder and related individuals, bearing interest from prime plus 2% to prime plus 7.5%, unsecured, repayable at the earlier of 10 days following receipt by the Company of equity investments of \$750,000 or in cash instalments on April 30, 1999 (for \$107,562) or July 31, 1999 (for \$40,000).	—	122,562
Western Economic Diversification financing is non-interest bearing. \$22,966 is repayable in ten equal quarterly payments beginning September 30, 1996 and \$82,350 is repayable in 16 equal quarterly payments beginning July 1, 1996. Repayments more than 30 days past due bear interest at the Bank of Canada Prime Rate plus 3%. No repayments have been made as of January 31, 2000.	105,316	105,316
Advance System Institute's project financing is non-interest bearing and becomes repayable one month following the applicable project's completion at the greater of \$895 per month or a royalty payment ranging from 6% to 10% of gross sales of certain products. In addition, a lump sum payment of \$26,250 is required to be made within seven months of the project's completion.	—	93,195
Notes payable to shareholders, bearing interest at a rate of prime plus 2% to prime plus 7.5%	15,000	75,000
Accrued interest	15,521	37,923
	155,837	639,359
Less: current portion	(135,837)	(619,359)
	\$ 20,000	\$ 20,000

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

9. Share capital

- (a) *Authorized*
100,000,000 common shares, without par value
- (b) *Issued and subscribed (common shares)*

	Number of Shares	Stated Values
Issued, January 31, 1995	2,110,790	\$ 823,030
Issued for cash	198,509	333,000
Issued pursuant to debt settlement	27,450	31,573
Issued, January 31, 1996	2,336,749	1,187,603
Issued for cash	543,290	1,396,828
Issued for cash on exercise of options and warrants	54,775	36,517
Issued for conversion of debt	10,425	31,275
Less: share issue expenses	-	(173,534)
Issued, January 31, 1997	2,945,239	2,478,689
issued for cash	269,139	489,648
Issued for cash on the exercise of warrants	142,171	196,079
Issued as bonus to an employee	875	2,625
Less: share issue costs	-	(36,249)
Issued, January 31, 1998	3,357,424	3,130,792
Issued for cash	158,500	259,005
Issued pursuant to debt settlement	1,146,201	649,093
Issued for cash on the exercise of options and warrants	56,750	85,200
Issued, January 31, 1999	4,718,875	4,124,090
Issued for cash	2,768,368	1,384,200
Issued pursuant to debt settlement	684,000	508,650
Issued for cancellation of royalty obligation	200,000	1
Issued for options exercised on debt settlement	179,365	44,841
Issued on settlement of share issue costs	300,000	150,000
Subscribed, not issued pursuant to debt settlement	15,000	21,000
Warrants exercised, not issued, for cash	159,200	79,600
Less: share issue costs	-	(362,399)
Issued and subscribed, January 31, 2000	9,024,808	\$ 5,949,983

All historical LMI common share transactions have been restated to reflect the share exchange ratio of one common share of the Company for every four common shares of LMI. As such, the issued and subscribed common shares at January 31, 2000 includes 95,599 common shares that the Company plans to issue to the remaining shareholders of LMI (note 2(a)).

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

9. Share capital, continued

(c) Share split

On April 19, 1999, common shares of the Company were split on a two for one basis. All numbers of shares and per share amounts have been restated to reflect the share split.

(d) Stock options

Under the terms of the Company's employee stock option plan, the board of directors may grant options to employees, officers and directors. The plan provides for the granting of options at the fair market value of the shares at the grant date. Options vest over various periods, with not more than 25% vesting in any six month period. The term of each option is determined at the time it is granted, with options not exceeding a five year term. The Company has reserved 2,000,000 options for issuance under the employee stock option plan.

At January 31, 1999, a shareholder had 192,500 stock options to acquire common shares of the Company at an exercise price of \$0.25 per option. The shareholder subsequently exercised 179,365 of the stock options and the remaining 13,135 options expired on August 25, 1999. The Company issued additional stock options subsequent to January 31, 2000 (note 13(b)).

(e) Warrants

As part of its share subscriptions, the Company issued 388,706 share purchase warrants during the year, of which 159,200 warrants were exercised, leaving 229,506 outstanding as at January 31, 2000. Each warrant entitled the holder to purchase common shares at a price of \$0.50 per share until the date of the Company's submission of a preliminary prospectus, and thereafter at a price per share at which the common shares are first publicly listed for trading. In addition, LMI Lightwave Medical Industries Limited has 752,334 share purchase warrants outstanding with exercise prices ranging from \$0.375 to \$1.25 per share.

10. Income taxes

The Company has non-capital losses of approximately \$3,006,000 for income tax purposes available at January 31, 2000 to reduce taxable income of future years. These losses will expire as follows:

2001	\$	200,000
2002		356,000
2003		350,000
2004		1,050,000
2005		400,000
2006		150,000
2007		500,000
	\$	3,006,000

CST COLD SWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

10. Income taxes, continued

In addition, research and development expenditures of approximately \$1,100,000 are available to reduce taxable income of future years. These amounts can be carried forward indefinitely. The potential benefits that may arise from the utilization of these amounts have not been recognized in these financial statements. The Company expects refundable investment tax credits of approximately \$60,000, of which \$Nil has been accrued in the financial statements. When received, the investment tax credits will reduce the research and development expenditures available to offset future years' taxable income.

11. Related party transactions

Management fees of \$124,000 were charged by directors and officers of the Company during the year ended January 31, 2000 (1999 - \$134,875; 1998 - \$182,320; 1997 - \$171,000; 1996 - \$105,520), of which \$48,087 is included in accounts payable and accrued liabilities at January 31, 2000 (1999 - \$66,801).

12. Commitments and contingencies

The Company has entered into premise, office and computer equipment leases, expiring in 2003, requiring the following minimum lease payments for the years ended January 31:

2001	\$	159,781
2002		75,297
2003		11,395
	\$	246,473

13. Subsequent events and proposed transactions

(a) On March 10, 2000, the Company entered into an underwriting agreement to issue 4,000,000 common shares at a price of \$1.00 each, for aggregate consideration of \$4,000,000 before fees and expenses. In connection with this offering, the Company has granted the underwriters an over-allotment option, exercisable until 60 days following the date of closing of the offering, to purchase up to an additional 600,000 common shares at a price of \$1.00 each. The Company has also granted to the underwriters share purchase warrants, exercisable until two years following the date the Company's common shares are listed and commence trading on the Canadian Venture Exchange, to purchase up to an additional 800,000 common shares at a price of \$1.00 per share.

CST COLDSWITCH TECHNOLOGIES INC.

Notes to Consolidated Financial Statements, Continued

Years ended January 31, 2000, 1999, 1998, 1997 and 1996

13. Subsequent events and proposed transactions, continued

- (b) The Company's board of directors approved the issuance of 1,018,372 stock options under the terms of the Company's stock option plan to existing and former employees and directors of the Company and to holders of LMI stock options at the offering price (note 13(a)) of \$1.00 per share. All LMI stock options are cancelled upon the approval of these resolutions.
- (c) The Company's board of directors approved the issuance of 1,400,000 common shares to the shareholders of CST Coldswitch Holdings Ltd., a shareholder of 1,400,000 common shares of the Company, in exchange for all the issued and outstanding common shares of CST Coldswitch Holdings Ltd.
- (d) The Company issued 9,000 common shares as a signing bonus to a new employee.

CERTIFICATE OF THE COMPANY

The foregoing constitutes full, true and plain disclosure of all material facts relating to the securities offered by this Prospectus as required by the Securities Act (British Columbia) the Securities Act (Alberta), the Securities Act (Ontario) and the respective rules and regulations thereunder.

DATED: June 26, 2000

“John S. Kidder”
Chief Executive Officer

“Barney Magnusson”
Chief Financial Officer

On behalf of the Board of Directors

“James Avis”
Director

“John Swift”
Director

“John S. Kidder”
Promoter

CERTIFICATE OF THE AGENT

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 the Securities Act (British Columbia), the Securities Act (Alberta), the Securities Act (Ontario) and the respective rules and regulations thereunder.

DATED: June 26, 2000

CANACCORD CAPITAL CORPORATION

"Michael G. Greenwood"

Authorized Signatory