

Please read this material carefully as you will be required to make a decision prior to 4:00 p.m. (Vancouver time) on February 14, 2002.

No securities commission or similar authority in Canada has in any way passed on the merits of the securities offered thereunder and any representation to the contrary is an offence. This offer is being made in the provinces of British Columbia, Alberta and Ontario (the "Qualified Jurisdictions") and other jurisdictions where it is not unlawful to do so.

Rights Offering Circular

January 10, 2002

COLDSWITCH TECHNOLOGIES INC.

(formerly, CST Coldswitch Technologies Inc.)

Business Address: 8561 Commerce Court, Burnaby, British Columbia, V5A 4N5

Registered Office: 2100-1075 West Georgia Street, Vancouver, British Columbia, V6E 3G2

OFFERING OF RIGHTS TO SUBSCRIBE FOR COMMON SHARES AT \$0.16 PER SHARE

SUMMARY OF RIGHTS OFFERING

The following is a summary of certain information contained in this Circular and is qualified in its entirety by the more detailed information contained elsewhere in the Circular. Capitalized terms used and not defined herein have the meanings ascribed to such terms elsewhere in the Circular.

Issue:	13,634,029 Rights to subscribe for up to a maximum of 3,408,507 Common Shares of Coldswitch Technologies Inc. (the "Company").
Record Date:	January 23, 2002.
Subscription Price:	\$0.16 per share.
Distribution of Rights:	One Right is granted for each Common Share of the Company held at the close of business on the Record Date.
Expiry	Rights will expire and become void for all purposes at 4:00 p.m., Vancouver time, on February 14, 2002.
Basic Subscription Privilege:	Four Rights entitle the holder to subscribe for one Common Share at the Subscription Price.
Step-up Privilege:	In certain circumstances, holders of Rights not evenly divisible by 400 will be entitled to round up their subscription to the next 100 Common Shares.
Payment:	Cheque payable to Pacific Corporate Trust Company in the amount of the purchase price of Common Shares subscribed for.

Additional Subscription Privilege:	Holders of Rights Certificates will be entitled to subscribe for Additional Common Shares, if available.
Participation of Insiders:	All of the directors of the Company who own Common Shares (the “Participating Insiders”) intend to exercise all of the Rights they receive. As of the date hereof, the Participating Insiders are entitled to receive 2,581,028 Rights.
Standby Commitment:	Standby Purchasers have agreed to purchase any Common Shares not otherwise purchased pursuant to this Rights Offering to a maximum aggregate value of \$464,500 (approximately 85% of the maximum issuable under this Rights Offering).
Use of Proceeds:	<p>Assuming all the Rights offered are exercised, gross proceeds will be \$545,361. Assuming all of the Rights are exercised through soliciting dealers (other than those Rights held by the Participating Insiders), the Company estimates net proceeds (gross proceeds less estimated expenses of the issue) will be approximately \$493,255. The net proceeds will be used by the Company to fund on-going activities including:</p> <ul style="list-style-type: none"> (i) develop production-ready design of additional products for the oil and gas, petrochemicals, pipeline and other sectors with capability to measure, signal and control operational information such as liquid levels, pressure and temperature conditions in industrial applications; (ii) extend proprietary protection of the Company’s intellectual property in such design; and (iii) fund investigation of additional product technology development opportunity in fields familiar to the Company’s management.
Subscription Agent:	Pacific Corporate Trust Company
Listing:	The Rights will be listed on the CDNX and will be posted for trading until 9:00 a.m. (Vancouver time) on February 14, 2002. CDNX has approved the listing of the Common Shares issuable on exercise of the Rights.

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BUSINESS OF THE COMPANY

The Company designs and develops commercial products made from polymer optical fibres and low-cost plastic components which are used economically and safely in sensor, signalling, controlling and switching applications.

Changes in the Business in 2001

The Lumitrol surgical commercialization program was paused in December 2000 (refer to Annual Report 2000) and then halted in July, 2001 (CDNX:CST News Release #13-01, Financial Results for the second quarter ended June 30, 2001) because of insufficient business opportunity for the product at the time in a difficult commodity market. The \$450,000 write-down in June, 2001 of Lumitrol automation equipment related to the inability to schedule other timely use of cable preparation machinery purchased previously for the Lumitrol commercialization program.

Also commencing in July, 2001, the board of directors of the Company judged that there were stronger opportunities for sales, revenues and income contribution in industrial sectors for 2002 and beyond. In these sectors, prevalent electrical systems must be more expensive to design and install to meet customary industry hazards.

A change of executive and marketing management which began in July, 2001, including the departure of the previous President and part of his team which was focussed on medical products, resulted in a significant reduction of overhead costs. Former management has been replaced by a team of non-salaried directors of the Company having extensive business and professional experience and credentials. They work with the continuing core technical management of the Company to concentrate on technological development of products to contribute satisfactory commercial margins, starting with the oil and gas, petrochemical and pipeline industrial sectors as the most available.

A strategic alliance with Padtech Industries Ltd. ("Padtech") began in the second quarter of 2001 to prepare for future exploitation of opportunities which may exist for small photonics start-up enterprises having parallel and potentially complementary technological skills. Padtech is such a complementary photonics business, more advanced in terms of commercialization and with prospects particularly for automotive and airframe manufacture sectors which had been the focus of investigation by the Company singly. As part of the strategic alliance, the Company lent \$100,000 to Padtech in the form of a convertible debenture which is convertible into 200,000 common shares of Padtech. In a related agreement, Padtech issued to the Company warrants to purchase 300,000 common shares of Padtech. If the Company were to convert the full amount of the convertible debenture and exercise all of the warrants, it would hold 13% of the currently outstanding common shares of Padtech. The President of Padtech is a director of the Company.

In each of 1999, 2000 and 2001 a limited number of Lumitouch fMRI response pads were sold and the revenues from these sales have been shown as a reduction in R&D expense in accordance with Generally Accepted Accounting Principles for development stage companies.

Description of Technology

The Company has developed a proprietary system of optical controls for managing light within polymer optical fibres (the "Technology"). The basic components of the Company's fibre optic switches and sensors are a polymer 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 performances advantages:

- 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;
- polymer 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 systems diagnosis is made possible because light is always present throughout a functioning systems;
- 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 manufacturing systems made of inexpensive and robust components consisting of 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 polymer optical fibre.

Replacement of other 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 equivalents.

Overview of the Company's Products

Lumitouch Optical Reply Pad

The Lumitouch is a polymer fibre optic response keypad for use in functional magnetic resonance imaging. The Lumitouch controls the flow of light through fibre optic cables to an opto-electric converter, by the use of two or more push-buttons or a joystick 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 magnetic resonance imaging 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 Lumitouch product is used 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: identifying the regions responsible for behaviour, memory, speech, etc. The researcher's ultimate goal is to provide a useful tool for clinical assessment in patients suffering from epilepsy, language difficulty, behavioural disorders, etc.

The first Lumitouch was developed to meet a specific need at the University of British Columbia, and the product is now being sold in limited quantities for use in magnetic resonance imaging research establishments in North America, Asia and Europe.

Explosion-Proof Switch

Explosion-proof switches are required to switch power for machinery in hazardous environments such as mines, petrochemical facilities and other plants where volatile substances in the air may potentially come into contact with sparks and trigger an explosion. The conventional technology minimizes hazard by enclosing the switch in an expensive metal box and covering electrical wires with multiple layers of insulating and protecting materials. The Company has industrial fibre optic switches that cost less, are safer and lighter (weighing 1/10 to 1/20 of the typical conventional switch), and are more reliable than current electrical switches since light totally eliminates the risk of sparks.

The Company has received its first purchase order for installation of industrial explosion-proof switches in a plant in Alberta. This order followed successful field testing of the fibre optic selector switch installed in June 2001.

New Products Under Development

Following the successful field trial of the fibre optic explosion-proof industrial switch, the Company is responding to strong interest expressed by this customer for industrial sensors for oil, gas and petrochemical industries. This includes development of temperature, pressure and level sensors, and possibly fibre optic flowmeters. The first, a fibre optic temperature/pressure sensor, is scheduled to be ready for field test in early March 2002.

Proprietary Protection

The Company holds 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 three patents are pending. The Company has entered into confidentiality agreements with potential partners and competitors to further protect its intellectual property and knowledge.

DETAILS OF THE RIGHTS AND COMMON SHARES

Rights and Certificates

Each registered holder of Common Shares is entitled to one Right for each Common Share held at the close of business on the Record Date. Rights to subscribe for an aggregate of 3,408,507 Common Shares

of the Company will be issued to the holders of Common Shares, excluding the Company's wholly-owned subsidiary, Coldswitch Holdings Inc., which holds 1,400,000 Common Shares.

A transferable certificate (a "Rights Certificate") evidencing Rights to subscribe for Common Shares upon the terms of this offer is being sent to holders of the Common Shares of record on the Record Date (other than Non-Participating Shareholders and the Company's wholly-owned subsidiary, Coldswitch Holdings Inc.). Each Rights Certificate indicates the number of Rights to which the holder is entitled.

Basic Subscription Privilege

Each holder of a Rights Certificate will be entitled (the "Basic Subscription Privilege") to purchase one Common Share for every four Rights exercised. For example, 4,000 Rights and the payment of \$160 are required to purchase 1,000 Common Shares.

Expiry Time

Rights will expire and become void for all purposes at 4:00 p.m., Vancouver time, on February 14, 2002 (the "Expiry Time"). **Rights not exercised prior to the Expiry Time will be void and of no value.**

Purchase and Sale of Rights

The Rights will be posted for trading on the Canadian Venture Exchange ("CDNX") and trading of Rights on the CDNX will terminate at 9:00 a.m. (Vancouver time) on the Expiry Date. The Rights Certificates are transferable only at the offices of the Subscription Agent.

The Rights evidenced by Rights Certificates may be transferred to others by delivery of such Rights Certificates, provided that the assignment form (*Form 3*) on the face of the Rights Certificate has been duly executed by the registered holder (see "*How to Use the Rights Certificate - To Sell or Transfer Rights - Form 3*"). Rights may be bought or sold through any registered investment dealer or broker in the Qualified Jurisdictions.

Payment of any service charge, commission or other fee payable in connection with the exercise or trade of Rights (other than the fee for the services to be performed by the Subscription Agent referred to under "**Subscription Agent and Transfer Agent**" and the fee to be paid by the Company described under "**Soliciting Dealers**") shall be the responsibility of the Rights holder.

Step-up Privilege

Each holder of a Rights Certificate which evidences a number of Rights not evenly divisible by 400 will be entitled to round up his or her subscription to the next 100 Common Shares (the "Step-up Privilege") provided that the total number of Common Shares subscribed for pursuant to the Basic Subscription Privilege and the Step-up Privilege is not greater than 3,408,507 Common Shares. This Step-up Privilege will be void and of no effect if the Rights Certificate is divided or combined or if any of the Rights evidenced by such certificate are sold, transferred or assigned by the holder to whom such Rights were originally issued. However, a bank, trust company, securities dealer or broker which holds Common Shares as of the Record Date for more than one beneficial owner may, upon providing evidence satisfactory to the Subscription Agent, exercise the Rights evidenced by its Rights Certificate or exchange its Rights Certificate on the same basis as though each of the beneficial owners was a shareholder of record as of the Record Date.

Additional Subscription Privilege

A holder of a Rights Certificate who fully exercises the Rights evidenced thereby and subscribes for the maximum number of Common Shares that can be subscribed for pursuant to the Basic Subscription Privilege and to the Step-up Privilege, where applicable, will also have the right to subscribe for Additional Shares at the Subscription Price prior to the Expiry Time (the “Additional Subscription Privilege”). See *“How to Use the Rights Certificate — To Apply for Additional Shares — Form 2”*.

The Common Shares available under the Additional Subscription Privilege shall be those Common Shares issuable pursuant to Rights that have not been exercised under the Basic Subscription Privilege and Step-up Privilege prior to the Expiry Time. Where there are a sufficient number of Additional Shares to satisfy all additional subscriptions under the Additional Subscription Privilege, each holder who has validly subscribed for Additional Shares will be allotted the number of Additional Shares for which such holder has subscribed. If there should be an insufficient number of Common Shares available to satisfy the subscriptions for Additional Shares, each holder who has validly subscribed for Additional Shares will be allocated Additional Shares in the manner described under *“How To Use The Rights Certificate - To Apply for Additional Shares - Form 2”*.

Non-Participating Shareholders

The issue of the Rights is not qualified under the securities laws of any jurisdiction other than the Qualified Jurisdictions. Rights Certificates will not be sent to shareholders (the “Non-Participating Shareholders”) whose record address is in a jurisdiction other than the Qualified Jurisdictions. Instead, the Non-Participating Shareholders will be sent a letter advising them that their Rights Certificates will be issued to and held by the Subscription Agent, who will hold such Rights as agent for the benefit of all Non-Participating Shareholders.

The Subscription Agent will hold the Rights until January 31, 2002 (the “Qualifying Notice Date”), being the date that is 14 days prior to the Expiry Time in order to give holders of Common Shares an opportunity to provide written notice to the Subscription Agent (the “Qualifying Shareholder Notice”) in form and substance satisfactory to the Subscription Agent, on or before the Qualifying Notice Date showing that such holders are not Non-Participating Shareholders and to claim their Rights from the Subscription Agent.

After the Qualifying Notice Date, the Subscription Agent will attempt to sell prior to the Expiry Time all Rights held for the benefit of the Non-Participating Shareholders on such date or dates and at such price or prices as the Subscription Agent determines in its sole discretion. The Subscription Agent’s ability to sell such Rights, and the price obtained therefor, are dependent on market conditions. The Subscription Agent shall not be subject to any liability for failure to sell any Rights of Non-Participating Shareholders at a particular price, or on a particular day, or at all.

The net proceeds received by the Subscription Agent from the sale of such Rights will, subject to certain limitations discussed below, be divided among the Non-Participating Shareholders pro rata according to the number of Rights to which they would have otherwise been entitled to receive on the Record Date. The Subscription Agent will mail cheques therefor in an amount equal to the proceeds of such sale (net of reasonable expenses and any amount withheld in respect of Canadian withholding taxes) to the Non-Participating Shareholders at their addresses appearing on the records of the Company.

There is a risk that the proceeds received from the sale of the Rights will not exceed the brokerage commissions and the costs incurred by the Subscription Agent in respect of the sale of such Rights. In such event, the Non-Participating Shareholders will not be liable for any shortfall and no

proceeds will be forwarded to such shareholders. If a Non-Participating Shareholder is entitled to receive proceeds from the sale of Rights in an amount less than \$5.00 such amount will not be paid to such shareholder and such proceeds will be remitted by the Subscription Agent to the Company.

The Rights Certificates and the Common Shares to which the Rights Certificates relate are not registered under the *Securities Act of 1933*, as amended, of the United States of America. This Rights Offering is not being made in the United States of America or any territory or possession thereof and is not, and under no circumstances is to be construed as, an offering of securities for sale in the United States of America or any territory or possession thereof or a solicitation therein of any offer to buy any Common Shares or other securities of the Company from any person, or any persons, or agent, who appears to be, or whom the Company has reason to believe is, a resident of the United States of America or its territories or possessions.

Attributes of Common Shares

All of the Common Shares rank equally as to voting rights, participation in a distribution of the assets of the Company on a liquidation, dissolution or winding-up of the Company and the entitlement to dividends. The holders of the Common Shares are entitled to receive notice of all meetings of shareholders and to attend and vote at the meetings. Each Common Share carries with it the right to one vote.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets, the holders of the Common Shares will be entitled to receive, on a pro rata basis, all of the assets remaining after the Company has paid out its liabilities. Distributions in the form of dividends, if any, will be set by the board of directors.

Provision as to the modification, amendment or variation of the rights attached to the Common Shares are contained in the Company's articles and the Company Act (British Columbia). Generally speaking, substantive changes to the share capital require the approval of the shareholders by special resolution passed by a majority of not less than three-quarters of the votes cast in person or by proxy by holders of the Common Shares.

SUBSCRIPTION AGENT AND TRANSFER AGENT

Pacific Corporate Trust Company at its offices located at 625 Howe Street, 10th Floor, Vancouver, British Columbia, V6C 3B8 (the "Subscription Office"), has been appointed as the Subscription Agent by the Company to receive subscriptions and payments on exercise of the Rights Certificates, to perform the services relating to the exercise of Rights and to act as agent for the Non-Participating Shareholders as described under "Non-Participating Shareholders". The Subscription Agent will hold all subscription proceeds received until the Expiry Time when it will forward the funds to the Company. The Company will pay for all such services of the Subscription Agent.

Pacific Corporate Trust Company has also been appointed the transfer agent of the rights and common shares of the Company.

HOW TO USE THE RIGHTS CERTIFICATE

General

By completing the appropriate form on the Rights Certificate in accordance with the instructions outlined below and on the Rights Certificate, a holder may:

- (a) subscribe for Common Shares under Basic Subscription Privilege (and Step-up Privilege, if applicable) - *Form 1*;
- (b) subscribe for Additional Shares under the Additional Subscription Privilege - *Form 2*;
- (c) sell or transfer Rights - *Form 3*; and/or
- (d) divide or combine the Rights Certificate - *Form 4*.

Unexercised Rights

Subject to the ability to divide or combine a Rights Certificate described under “*To Divide or Combine the Rights Certificate - Form 4*”, a Rights Certificate holder that completes Form 1 so as to exercise some but not all of the Rights evidenced by such Rights Certificate shall be deemed to have elected not to exercise the balance of such Rights and such balance shall be void and of no value.

Similarly, if a Rights Certificate holder fails to surrender such holder’s Rights Certificate to the Subscription Agent prior to the Expiry Date in the manner described herein, surrenders such Rights Certificate but fails to complete Form 1 or, if applicable, Form 2, on such Rights Certificate, or fails to make payment of the Subscription Price in the manner described herein in respect of any Common Shares which such holder elects to purchase, such holder will be deemed to have elected not to exercise the Rights represented by such Rights Certificate (or such portion thereof in respect of which such holder has failed to make payment or complete such form).

Signatures

When a Rights Certificate is signed by the original holder, the signature must correspond exactly with the name of the holder shown on the face of the Rights Certificate. If a Rights Certificate is signed by a trustee, executor, administrator or officer of a corporation or any person acting in a fiduciary or representative capacity, the Rights Certificate must be accompanied by evidence of authority to so sign satisfactory to the Subscription Agent.

Payment of Purchase Price

The aggregate Subscription Price for all Common Shares subscribed for pursuant to the Basic Subscription Privilege, the Step-up Privilege where applicable, and to the Additional Subscription Privilege is payable in Canadian funds by cheque payable at par (without deduction for bank service charges or otherwise) to or to the order of “Pacific Corporate Trust Company”.

The method of delivery of a subscription is at each holder’s discretion and risk. Delivery to the Subscription Agent will only be effective when the subscription is actually received by the Subscription Agent at the Subscription Office. If mail is used for delivery of a subscription, sufficient time must be allowed to avoid late delivery, and registered mail is recommended.

All payments, together with the duly completed Rights Certificate, must be delivered to the Subscription Agent prior to the Expiry Time.

To Subscribe Under Basic Subscription Privilege (and Step-up Privilege) – Form 1

The holder of a Rights Certificate may subscribe for either (a) the number of Common Shares to which the Rights Certificate entitles such holder or such greater number of Common Shares permitted under the Step-up Privilege, if applicable, or (b) any lesser number of Common Shares to which the Rights Certificate entitles such holder by completing Form 1 and delivering the Rights Certificate and the Subscription Price for such Common Shares to the Subscription Agent at the Subscription Office.

Completion of Form 1 constitutes a representation that the Rights Certificate holder is not a Non-Participating Shareholder or the agent of any such person.

To Apply for Additional Shares — Form 2

A Rights Certificate holder who subscribes for all of the Common Shares to which a Rights Certificate entitles such holder, pursuant to the Basic Subscription Privilege and to the Step-up Privilege where applicable, may subscribe for as many Additional Shares as desired (at the Subscription Price) by completing Form 2 specifying the number of Additional Shares desired. The completion of Form 2 constitutes a binding offer to purchase the number of Additional Shares specified. If there should be insufficient Common Shares available to satisfy the subscriptions for Additional Shares, the number of Common Shares, if any, available to an applicant for Additional Shares will be equal to the lesser of:

- (a) the number of Common Shares which the applicant has subscribed for under the Additional Subscription Privilege; and
- (b) the number (disregarding fractions) obtained by multiplying (x) the number of Additional Shares by (y) a fraction the numerator of which is the number of Common Shares the holder acquired pursuant to the Basic Subscription Privilege and the Step-up Privilege and the denominator of which is the aggregate number of Rights exercised under the Basic Subscription Privilege and the Step-up Privilege by all participants in the Additional Subscription Privilege.

If any Rights holder has subscribed for fewer Additional Shares than such holder's pro rata allotment of Additional Shares set out in (b) above, the excess Additional Shares will be allocated in a similar manner among the holders who were allotted fewer Additional Shares than they subscribed for.

Rights holders are to forward payment in full for Additional Shares subscribed for in Form 2 with the completed Rights Certificates to the Subscription Agent at the Subscription Office. The Subscription Price for Additional Shares is payable in Canadian funds by cheque payable to the order of Pacific Corporate Trust Company. All payments together with the duly completed Rights Certificate must be delivered to the Subscription Agent prior to the Expiry Time.

If there should be insufficient Common Shares available to satisfy the subscriptions for Additional Shares then, the excess Subscription Price delivered with respect to Common Shares that are unavailable shall be returned, without interest, to Rights holders as soon as practicable after the Expiry Time.

To Sell or Transfer Rights — Form 3

A Rights Certificate holder may, rather than exercising such holders Rights to subscribe for Common Shares, sell or transfer such Rights personally or through registered dealers by completing the transfer on

Form 3 on the face of the Rights Certificate and delivering the Rights Certificate to a purchaser (the “Transferee”). The Transferee may exercise all the Rights of such a holder (other than the Step-up Privilege) without obtaining a new Rights Certificate. If a Rights Certificate is transferred in blank, the Company and the Subscription Agent may thereafter treat the bearer as the absolute owner of such Rights Certificate for all purposes and neither the Company nor the Subscription Agent shall be affected by any notice to the contrary.

The signature of the transferring Rights Certificate holder on Form 3 must be guaranteed by a Canadian bank or an eligible guarantor institution with membership in an approved signature guarantee medallion program. The signature of the Transferee on any one or more of the forms on the Rights Certificate must correspond exactly with the name of the Transferee shown on Form 3.

If less than all of the Rights evidenced by a Rights Certificate are to be sold or transferred, Form 4 should be completed and the Rights Certificate divided accordingly (see “*To Divide or Combine the Rights Certificate - Form 4*”).

To Divide or Combine the Rights Certificate — Form 4

A Rights Certificate may be divided or combined with other Rights Certificates by completing Form 4 and delivering the Rights Certificate to the Subscription Agent. The Subscription Agent will then issue new Rights Certificates in such denominations totalling the same number of Rights as evidenced by the Rights Certificate being divided or combined, less any Rights which are being exercised by the holder as evidenced by a completed Form 1) as are requested by the holder. Rights Certificates must be surrendered for division or combination three business days prior to the Expiry Time so as to permit the new Rights Certificates to be issued and used by the holder prior to the Expiry Time.

Validity and Rejection of Purchases

All questions as to the validity, form, eligibility (including time of receipt) and acceptance of any purchase will be determined by the Subscription Agent, in its sole discretion, which determination shall be final and binding. All subscriptions for Common Shares are irrevocable. The Subscription Agent reserves the absolute rights to reject any subscription for Common Shares if such subscription is not in proper form or if the acceptance thereof or the issuance of Common Shares pursuant thereto could be deemed unlawful. The Subscription Agent also reserves the right to waive any defect with regard to any particular purchase. The Subscription Agent will not be under any duty to give any notification of any defect or irregularity in such purchases and the Subscription Agent shall not incur any liability for failure to give such notification.

REGISTRATION AND DELIVERY OF SHARE CERTIFICATES

Common Shares acquired through the exercise of Rights, including Additional Shares, will be registered in the name of the person to whom the Rights Certificate was issued or such holder’s Transferee, if any, indicated on the Rights Certificate. Certificates for Common Shares subscribed for, registered in the name of the subscriber, will be delivered as soon as practicable after the Expiry Time. Unless otherwise instructed, certificates for Common Shares will be issued and forwarded to the subscriber at the address set out on the face of the Rights Certificate.

INTENTIONS OF INSIDERS

All of the directors of the Company who own Common Shares (the “Participating Insiders”) have advised the Company that they intend to exercise the Rights they will receive in this Offering. To the knowledge of the Company, no insider other than the Participating Insiders has committed to exercise any Rights. The Company’s wholly-owned subsidiary, Coldswitch Holdings Inc., will not receive any Rights in respect of the 1,400,000 Common Shares held by it. To the knowledge of the Company, the Participating Insiders beneficially own approximately 2,581,028 Common Shares, representing 19% of the issued Common Shares, excluding the 1,400,000 Common Shares held by the Company’s wholly-owned subsidiary, Coldswitch Holdings Inc.

STANDBY COMMITMENT

The Company has entered into an agreement with the standby purchasers listed below (the “Standby Purchasers”) pursuant to which the Standby Purchasers have agreed to purchase any additional Common Shares not otherwise purchased pursuant to this Rights Offering to a maximum aggregate value of \$464,500 (approximately 85% of the maximum issue under this Rights Offering). Each Standby Purchaser has agreed to acquire, at the Subscription Price, Common Shares not issued under the Basic Subscription Right, the Step-up Right or the Additional Subscription Privilege up to the maximum commitment amount set out opposite his, her or its name below:

<u>Standby Purchaser</u>	<u>Maximum Commitment Amount</u>
Lauren Blair ⁽¹⁾	\$75,000
S. Robert Blair ⁽¹⁾	\$75,000
Bolder Investment Partners, Ltd.	\$150,000
Geoff Edwards	\$2,000
Qwest Technology V.C.C.	\$50,000
Rix Professional Medical Corporation ⁽²⁾	\$50,000
Fergus Wilmer	\$50,000
Terracy Inc. ⁽³⁾	\$12,500

Notes:

- (1) A director of the Company.
- (2) Professional corporation controlled by Don Rix, M.D.
- (3) A corporation controlled by Hugh Wynne-Edwards, a director of the Company.

In consideration of their standby commitments, the Company has agreed to grant to each of the above-named standby purchasers non-transferable warrants (the “Warrants”) to acquire the number of Common Shares equal to 40% of the maximum number of Common Shares that such Standby Purchaser may be required to purchase under their respective standby commitments. Each Warrant will be exercisable for a period of six months from the date of issue at an exercise price equal to the Subscription Price. The Warrants will be issued to the Standby Purchasers pursuant to private placement and other exemptions from the prospectus requirement under applicable securities laws.

SOLICITING DEALERS

The Company will pay to a registered dealer or broker in the Qualified Jurisdictions who is named on a Rights Certificate a solicitation fee of \$0.008 (or 5%) per Common Share, including Additional Shares, for which a subscription is procured under this Offering subject to a minimum solicitation fee of \$15.00

and a maximum of \$500 payable in respect of a subscription from any one beneficial owner. No solicitation fee will be paid in respect of any Common Shares subscribed for by Participating Insiders or any other insiders of the Company.

OWNERSHIP OF SECURITIES

To the best of the knowledge of the directors and senior officers of the Company, the only person who beneficially owns, directly or indirectly, or exercises control or direction over, shares carrying more than 10% of the voting rights attached to all issued shares of the Company is:

Shareholder Name	Number of Shares	Percentage of Issued Shares
David C. Dueck ⁽¹⁾	1,673,028	11.13% ⁽²⁾

- (1) Of 1,673,028 Common Shares beneficially owned or controlled by Mr. Dueck, 325,000 are registered in the name of DCD Ventures, Ltd., 1,233,426 are registered in the name Grantham Holdings Ltd., 101,305 are registered in the name of D.C. Dueck, and 13,286 are registered in the name of McAllister Industries, Ltd.
- (2) 12.27% of the issued Common Shares, excluding the 1,400,000 Common Shares held by the Company's wholly-owned subsidiary, Coldswitch Holdings Inc.

The Company's wholly-owned subsidiary, Coldswitch Holdings Inc., beneficially owns 1,400,000 Common Shares.

USE OF PROCEEDS

Assuming all the Rights offered are exercised, gross proceeds will be \$545,361. Assuming all of the Rights are exercised through soliciting dealers (other than those Rights held by the Participating Insiders), the Company estimates net proceeds (gross proceeds less estimated expenses of the issue) will be approximately \$493,255. The net proceeds will be used by the Company to fund on-going activities including:

- (i) develop production-ready design of additional products for the oil and gas, petrochemicals, pipeline and other sectors with capability to measure, signal and control operational information such as liquid levels, pressure and temperature conditions in industrial applications;
- (ii) extend proprietary protection of the Company's intellectual property in such design; and
- (iii) fund investigation of additional product technology development opportunity in fields familiar to the Company's management.

RESALE RESTRICTIONS

Securities legislation in the Qualified Jurisdictions restricts the ability of a holder to trade the Rights and Common Shares issued on exercise of the Rights, without certain conditions having been fulfilled or applicable prospectus requirements having been complied with. Set out below is a general summary of the restrictions governing first trades in Rights and underlying Common Shares in the Qualifying Jurisdictions. Additional restrictions apply to "insiders" of the Corporation and holders of Rights or Common Shares who are "control persons" or the equivalent or who are deemed to be part of what is

commonly referred to as a “control block” in respect of the company for purposes of securities legislation. Each holder is urged to consult his or her professional advisers to determine the conditions and restrictions applicable to trades in the Rights and the underlying Common Shares.

Generally, the first trade in Rights and underlying Common Shares will be exempt from the prospectus requirements of securities legislation in the Qualifying Jurisdictions if:

- (a) the Company is and has been a reporting issuer in any one of the provinces of Alberta, British Columbia, Saskatchewan, Manitoba, Ontario, Quebec, or Nova Scotia for 12 months immediately preceding the trade;
- (b) the trade is not a distribution from the holdings of a "control person" of the Company as defined in the applicable securities legislation;
- (c) no unusual effort is made to prepare the market or create a demand for the Rights or Common Shares;
- (d) no extraordinary commission or other consideration is paid in respect of such trade; and
- (e) if the seller is an insider or officer of the Corporation, the seller has no reasonable grounds to believe that the Company is in default of applicable securities legislation.

The Company is and has been a reporting issuer for more than 12 months in the provinces of Alberta, British Columbia, and Ontario.

CONTINUOUS DISCLOSURE

Further information about the Company may be obtained from the SEDAR website at www.sedar.com or from the Company’s website at www.coldswitch.com.