

HEALTHCARE REALTY TRUST INC  
Form 8-K  
May 09, 2011

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549  
FORM 8-K  
CURRENT REPORT**

**Pursuant To Section 13 or 15(d) of the Securities Exchange Act of 1934  
Date of report (Date of earliest event reported): May 9, 2011 (May 9, 2011)**

**HEALTHCARE REALTY TRUST INCORPORATED**

(Exact Name of Registrant as Specified in Charter)

**MARYLAND**

**001-11852**

**62-1507028**

(State or other jurisdiction  
of incorporation)

(Commission File  
Number)

(I.R.S. Employer  
Identification No.)

**3310 West End Avenue, Suite 700, Nashville, Tennessee 37203**

(Address of principal executive offices) (Zip Code)  
**(615) 269-8175**

(Registrant's telephone number, including area code)  
**Not Applicable**

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (*see* General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 2.02 Results of Operations and Financial Condition**

On May 9, 2011, Healthcare Realty Trust Incorporated (the Company ) issued a press release announcing its earnings for the first quarter ended March 31, 2011. A copy of this press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K and is incorporated herein by reference in its entirety.

**Item 7.01 Regulation FD Disclosure**

The Company is furnishing its Supplemental Information for the three months ended March 31, 2011, which is also contained on its website ([www.healthcarerealty.com](http://www.healthcarerealty.com)). See Exhibit 99.2 to this Current Report on Form 8-K.

**Item 9.01 Financial Statements and Exhibits**

- 99.1 First quarter earnings press release, dated May 9, 2011.
  - 99.2 Supplemental Information for the three months ended March 31, 2011.
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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

HEALTHCARE REALTY TRUST INCORPORATED

By /s/ Scott W. Holmes  
Scott W. Holmes  
Executive Vice President and  
Chief Financial Officer

Date: May 9, 2011

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As part of the consideration for the issuance of the notes on February 24, 2006, we agreed to reduce the conversion of the notes issued on August 29, 2005 from \$1.06 to \$1.00 and reduce the exercise price of 792,453 warrants issued to the four accredited investors on August 29, 2005 from \$1.25 to \$1.15. In addition, we agreed to issue additional warrants to purchase an aggregate of 1,307,547 shares of our common stock to the four accredited investors who participated in the private placement on August 29, 2005.

In the note agreement with the each of the investors in the February 24, 2006 private placement, we agreed to file this registration statement on or before March 29, 2006. After filing this registration statement, we are required to use our best efforts to cause this registration statement to become effective by May 29, 2006 or in the event of a full review of this registration statement by the Securities and Exchange Commission, by June 28, 2006. We will be required to keep the registration statement effective for a period of five (5) years from the date it becomes effective.

In the event that:

- we fail to file this registration statement by March 29, 2006;
- we fail to file a request for acceleration within five trading days of the date we are notified that this registration statement will not be reviewed or is not subject to further review by the Securities and Exchange Commission;
- prior to the date when this registration statement is first declared effective by the Securities and Exchange Commission, we fail to file a pre-effective amendment and otherwise respond in writing to comments made by the Securities and Exchange Commission within 10 trading days after the receipt of comments by or notice that such amendment is required in order for this registration statement to be declared effective;
- we fail to have this registration statement declared effective by May 29, 2006 or June 28, 2006, as applicable;
- this prospectus is unavailable for more than 10 consecutive days;
- our common stock is not listed or quoted, or is suspended from trading, on the OTC Bulletin Board for a period of three trading days; or
- the exercise rights of warrants are suspended for any reason;

(each of these is deemed to be a registration default) then our company will pay liquidated damages to each of the investors equal to 1% of the aggregate purchase price paid by each holder for the first 30 days after the date of default (on a prorated basis of less than 30 days) and 1% of the aggregate purchase price paid by each holder for the notes for every 30 day period thereafter (on a prorated basis of less than 30 days). The amount we may have to pay as liquidated damages is limited to 24% of the aggregate purchase price of \$2,000,000.

In connection with the February 24, 2006 private placement, we will pay a placement fee in cash of \$66,000, being equal to six percent (6%) of the aggregate gross proceeds raised from the sale of convertible notes from investors who participated in the August 29, 2005 private placement.

As security for the payment and satisfaction of all of our obligations under the notes issued on February 24, 2006, we and our subsidiaries granted a continuing first priority security interest in and to all of our and our subsidiaries' assets (which we now own or which we acquire in the future) to the holders of the notes. The assets included all cash and investment accounts, accounts receivable, contracts, notes, bills, inventory, machinery, equipment, supplies, furniture, furnishings, fixtures, corporate or business records, inventions, designs, patents, patent applications, trademarks, trademark registrations and applications, goodwill, trade names, trade secrets, trade processes, copyrights, copyright registrations and applications, licenses, permits, franchises, customer lists, computer programs, all claims under guaranties and tax refund claims.

As security for the payment and satisfaction of all of our obligations under the notes issued on February 24, 2006, we also pledged and collaterally assigned to the holders a first priority security interest in the shares of our subsidiaries and in any and all cash, securities, dividends, rights, and other property at any time and from time to time declared or distributed in respect of or in exchange for any or all of such shares.

If we default on the notes, the holders of the notes have the following rights:

- all of the rights and remedies of a secured party under the British Columbia Personal Property Security Act and such additional rights and remedies to which a secured party is entitled under the laws in any jurisdiction;
- to request that we assemble all of our assets for the secured parties;
- the right to make any reasonable compromise or settlement deemed desirable with respect to any of our assets and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of any of the assets;
- the right to demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of our assets;
- upon giving twenty (20) business days prior written notice to us, to sell, lease, assign or otherwise dispose of all or any of our assets at a public or private sale; and
- the right to exercise all voting, consensual and other powers of ownership in connection with the shares of our subsidiaries.

#### *August 29, 2005 Private Placement*

On August 29, 2005, we sold to four accredited investors an aggregate of \$2,100,000 of 6% convertible notes which entitle the investors to convert all or any part of the principal outstanding under the convertible notes into common shares at \$1.06 per share, subject to adjustment according to the terms of the note agreement. The notes bear interest on the outstanding principal amount until the notes are paid in full at an annual rate of 6%. Pursuant to the terms of the note agreement, the notes are convertible into shares of our common stock. The interest payable on the principal amount outstanding under the convertible notes is payable quarterly in cash or common shares, with the number of shares to be determined by dividing the interest payable by the market price as defined in the note agreement.

As part of the private placement, each investor also received share purchase warrants. Each share purchase warrant entitles the investor to purchase the number of shares of common stock equal to 40% of the total number of shares of common stock exercisable upon conversion of the convertible note at the time of issuance of the convertible note and is exercisable for a period of five years, at an exercise price per warrant share of \$1.25, subject to adjustment in accordance with the terms of the warrant. We issued 792,453 warrants to the four investors on August 29, 2005 and an additional 166,415 warrants to a placement agent on the same terms.

As part of the consideration for the issuance of the notes on February 24, 2006, we agreed to reduce the conversion of the notes issued on August 29, 2005 from \$1.06 to \$1.00 and reduce the exercise price of 792,453 warrants issued on August 29, 2005 from \$1.25 to \$1.15. In addition, we agreed to amend the adjustment provisions of the notes and warrants issued in the August 29, 2005 private placement such that such adjustment provisions were replaced with the provisions contained in the notes and warrants issued on February 24, 2006. In addition, we agreed to issue additional warrants to purchase an aggregate of 1,307,547 of our common stock to the four accredited investors who participated in the private placement on August 29, 2005.

In the note agreement with the each of the investors in the August 29, 2005 private placement, we agreed to file a registration statement on or before October 2, 2005. We filed the registration statement on September 30, 2005. After filing the registration statement, we were required to use our best efforts to cause this registration statement to



become effective by December 1, 2005 or in the event of a full review of this registration statement by the Securities and Exchange Commission, by December 31, 2005. The registration statement was declared effective on October 17, 2005. We are required to keep the registration statement effective for a period of two (2) years from the date it became effective.

In the event that the prospectus is unavailable for more than 15 consecutive days or more than 30 days during any 12 month period, then our company will pay liquidated damages to each of the investors equal to 1% of the aggregate purchase price paid by each holder for the first 30 days after the date of default and 1% of the aggregate purchase price paid by each holder for the notes for every 30 day period thereafter.

In connection with the August 2005 private placement, we paid a placement fee in cash of \$126,000, being equal to six percent (6%) of the aggregate gross proceeds raised from the sale of convertible notes and issued 166,415 warrants to purchase common shares, which warrants have the same terms as those issued in the private placement but also includes a cashless exercise feature.

#### *April 2004 Private Placement*

On April 13, 2004, we sold to nine accredited investors an aggregate of 2,219,611 shares of our common stock, Series A share purchase warrants to acquire an additional 554,903 shares of our common stock and Series B share purchase warrants to acquire an additional 1,109,806 shares of our common stock for gross proceeds of \$4,994,125.

The Series A share purchase warrants had an exercise price of \$3.50 per share until it was reduced to \$1.25 pursuant to an agreement between our company and the investors on September 6, 2005. The Series A share purchase warrants expire on April 13, 2009. The Series B share purchase warrants had an exercise price of \$2.25 per share and those warrants which were not exercised expired on February 2, 2005.

In connection with this private placement, we paid a placement fee of \$299,647, being equal to six percent (6%) of the aggregate gross proceeds of the private placement plus any monies we receive from the exercise of the Series A and Series B warrants. We also paid \$10,000 to the investor's attorney to reimburse the investors for their legal costs.

As an inducement to the early exercise of the Series B share purchase warrants, our company temporarily reduced the exercise price of the Series B share purchase warrants to \$1.90 per share if such warrants were exercised on or before November 5, 2004. On November 5, 2004, holders of the Series B share purchase warrants exercised 309,806 of the Series B share purchase warrants for gross proceeds of \$588,605. Our company paid a placement fee in cash of \$35,317, being equal to 6% of the gross proceeds received from the warrant exercise, as required under the original private placement agreement to a placement agent who originally identified the investors in April 2004. The balance of the Series B share purchase warrants which were not exercised expired on February 2, 2005.

In the securities purchase agreement with each of the investors in the April 2004 private placement, we agreed to file a registration statement on or before May 13, 2004. We filed the registration statement on May 17, 2004. We are required to keep the registration statement effective for a period of two (2) years from the effective date of the registration statement.

In the event that the prospectus relating to the April 2004 private placement is unavailable for more than 15 consecutive days or more than 30 days during any 12 month period, which is deemed to be a registration default, then we will pay liquidated damages to each of the investors equal to 1.5% of the aggregate purchase price paid by each holder. If we fail to pay any partial liquidated damages in full within seven days after the date payable, we will pay interest thereon at a rate of 10% per annum to each investor, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

#### SELLING SECURITY HOLDERS

The selling security holders may offer and sell, from time to time, any or all of the common stock issued and the common stock issuable to them upon conversion of or as interest payments on the convertible notes and the exercise





of the share purchase warrants. Because the selling security holders may offer all or only some portion of the 15,815,082 shares of common stock to be registered, no estimate can be given as to the amount or percentage of these shares of common stock that will be held by the selling security holders upon termination of the offering.

For a description of the convertible notes and share purchase warrants, see the sections below entitled "February 24, 2006 Private Placement of Convertible Notes and Warrants" and "August 29, 2005 Private Placement of Convertible Notes and Warrants".

The following table sets forth certain information regarding the beneficial ownership of shares of common stock by the selling security holders as of March 1, 2006, and the number of shares of common stock covered by this prospectus. The number of shares in the table represents an estimate of the number of shares of common stock to be offered by the selling security holders.

Other than the relationships described below, none of the selling security holders had or have any material relationship with us within the past three years. Other than as set forth herein, none of the selling security holders is a broker-dealer or an affiliate of a broker-dealer to our knowledge.

Name of Selling Security holder and Position, Office or Material Relationship with Bulldog Technologies	Common Shares owned by the Selling Security holder <sup>(2)</sup>	Number of Shares Issuable Upon Conversion of, as principal repayments on or as interest payments on the Convertible Notes and/or Upon Exercise of the Share Purchase Warrants <sup>(2)</sup>	Total Shares Registered	Number of Shares Owned by Selling Security holder After Offering and Percent of Total	
				Issued and Outstanding <sup>(1)</sup> # of Shares	% of Class
Omicron Master Trust <sup>(3)</sup>	Nil	2,477,454	2,477,454	Nil	0%
Nite Capital, LP <sup>(4)</sup>	212,264	1,442,665	1,654,929	Nil	0%
RHP Master Fund, Ltd. <sup>(5)</sup>	Nil	3,248,680	3,248,680	Nil	0%
Iroquois Master Fund Ltd. <sup>(6)</sup>	579,000	2,152,397	2,731,397	Nil	0%
Alexandra Global Master Fund Ltd. <sup>(7)</sup>	1,093,856	388,889	1,482,745	Nil	0%
Otape Investments LLC <sup>(8)</sup>	Nil	11,111	11,111	Nil	0%
AS Capital Partners, LLC <sup>(9)</sup>	Nil	22,222	22,222	Nil	0%
SRG Capital, LLC <sup>(10)</sup>	Nil	38,750	38,750	Nil	0%
Spectra Capital Management, LLC <sup>(11)</sup>	Nil	44,445	44,445	Nil	0%
Basso Private Opportunity Holding Fund Ltd. <sup>(12)</sup>	Nil	11,126	11,126	Nil	0%
Basso Multi-Strategy Holding Fund Ltd. <sup>(13)</sup>	Nil	14,749	14,749	Nil	0%
Truk Opportunity Fund, LLC <sup>(14)</sup>	Nil	12,500	12,500	Nil	0%

F. Berdon Co. LP <sup>(15)</sup>	Nil	11,111	11,111	Nil	0%
Oppenheimer & Co. Inc. <sup>(16)</sup>	77,853	97,316	97,316	Nil	0%
Andrew Kaminsky <sup>(17)</sup>	Nil	29,921	29,921	Nil	0%
Stanley Stern <sup>(17)</sup>	Nil	16,144	16,144	Nil	0%
Henry Williams <sup>(17)</sup>	Nil	12,108	12,108	Nil	0%
Kee Colen <sup>(17)</sup>	Nil	9,685	9,685	Nil	0%
Jeffrey Hagan <sup>(17)</sup>	Nil	6,860	6,860	Nil	0%
Jason Janosz <sup>(17)</sup>	Nil	6,054	6,054	Nil	0%
Chris Hagar <sup>(17)</sup>	Nil	6,054	6,054	Nil	0%
Jeffrey Cohen <sup>(17)</sup>	Nil	4,035	4,035	Nil	0%
Ed Newman <sup>(17)</sup>	Nil	4,000	4,000	Nil	0%
James Irvine <sup>(17)</sup>	Nil	4,000	4,000	Nil	0%
Robert Powers <sup>(17)</sup>	Nil	4,000	4,000	Nil	0%
George Billington <sup>(17)</sup>	Nil	3,000	3,000	Nil	0%
Zubin Mory <sup>(17)</sup>	Nil	2,825	2,825	Nil	0%
Ranan Lackman <sup>(17)</sup>	Nil	1,210	1,210	Nil	0%
Stuart Barish <sup>(17)</sup>	Nil	808	808	Nil	0%
RAQ, LLC <sup>(18)</sup>	Nil	561,000	561,000	Nil	0%
Otto W. Hoernig III <sup>(19)</sup>	Nil	935,000	935,000	Nil	0%
Alpha Capital AG <sup>(20)</sup>	Nil	935,000	935,000	Nil	0%
Enable Growth Partners LLP <sup>(21)</sup>	Nil	682,550	682,550	Nil	0%
Enable Opportunity Partners LLP <sup>(22)</sup>	Nil	112,200	112,200	Nil	0%
Pierce Diversified Strategy Master Fund LLC <sup>(23)</sup>	Nil	140,250	140,250	Nil	0%

\* Less than 1% of the issued and outstanding shares of our company as of March 1, 2006.

- (1) Assumes all of the shares of common stock offered are sold. There were 24,655,288 common shares issued and outstanding on March 1, 2006.
- (2) The number of shares of common stock listed as beneficially owned by such selling security holder represents the number of shares of common stock currently owned and potentially issuable to such selling security holder. For these purposes, any contractual or other restriction on the number of securities the selling security holder may own at any point have been disregarded.
- (3) The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 250,000 shares of common stock (500,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$250,000, due August 24, 2007; (ii) 150% of the 40,000 shares of common stock (60,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 561,321 shares of common stock (841,982 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

August 29, 2005 Private Placement: (i) 125% of the 471,698 shares of common stock (589,623 shares of common stock) potentially issuable upon conversion of a convertible note, principal amount of \$500,000, due August 29, 2010; (ii) 125% of the 200,000 shares of common stock (250,000 shares of common stock) potentially issuable as interest on the convertible note assuming a market price of \$0.75 at the time of issuance of such shares; and (iii) 125% of 188,679 shares of common stock (235,849 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until August 29, 2010 at an exercise price of \$1.15 per share.

Omicron Capital, L.P., a Delaware limited partnership ("Omicron Capital"), serves as investment manager to Omicron Master Trust, a trust formed under the laws of Bermuda ("Omicron"). Omicron Capital, Inc., a Delaware corporation ("OCI"), serves as general partner of Omicron Capital, and Winchester Global Trust Company Limited ("Winchester") serves as the trustee of Omicron. By reason of such relationships, Omicron Capital and OCI may be deemed to share dispositive power over the shares of our common stock owned by Omicron, and Winchester may be deemed to share voting and dispositive power over the shares of our common stock owned by Omicron. Omicron Capital, OCI and Winchester disclaim beneficial ownership of such shares of our common stock. Omicron Capital has delegated authority from the board of directors of Winchester regarding the portfolio management decisions with respect to the shares of common stock owned by Omicron and, as of September 15, 2005, Mr. Olivier H. Morali and Mr. Bruce T. Bernstein, officers of OCI, have delegated authority from the board of directors of OCI regarding the portfolio management decisions of Omicron Capital with respect to the shares of common stock owned by Omicron. By reason of such delegated authority, Messrs. Morali and Bernstein may be deemed to share dispositive power over the shares of our common stock owned by Omicron. Messrs. Morali and Bernstein disclaim beneficial ownership of such shares of our common stock and neither of such persons has any legal right to maintain such delegated authority. No other person has sole or shared voting or dispositive power with respect to the shares of our common stock being offered by Omicron, as those terms are used for purposes under Regulation 13D-G of the Securities Exchange Act of 1934, as amended. Omicron and Winchester are not "affiliates" of one another, as that term is used for purposes of the Securities Exchange Act of 1934, as amended, or of any other person named in this prospectus as a selling stockholder. No person or "group" (as that term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended, or the SEC's Regulation 13D-G) controls Omicron and Winchester.

<sup>(4)</sup> The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 250,000 shares of common stock (500,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$250,000, due August 24, 2007; (ii) 150% of the 40,000 shares of common stock (60,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 405,660 shares of common stock (608,490 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

August 29, 2005 Private Placement: (i) 125% of the 25,000 shares of common stock (31,250 shares of common stock) potentially issuable upon conversion of a convertible note, balance of principal amount of \$25,000, due August 29, 2010; (ii) 125% of the 100,000 shares of common stock (125,000 shares of common stock) potentially issuable as interest on the convertible note assuming a market price of \$0.75 at the time of issuance of such shares; and (iii) 125% of the 94,340 shares of common stock (117,925 shares of common stock)

potentially issuable upon the exercise of share purchase warrants, exercisable until August 29, 2010 at an exercise price of \$1.15 per share.

Keith Goodman, a Manager of the General Partner of Nite Capital, LP, exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

<sup>(5)</sup> The number of shares of common stock listed as beneficially owned by such selling security holder includes:  
February 24, 2006 Private Placement: (i) 200% of the 250,000 shares of common stock (500,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$250,000, due August 24, 2007; (ii) 150% of the 40,000 shares of common stock (60,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 716,981 shares of common stock (1,075,472 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

August 29, 2005 Private Placement: The number of shares of common stock listed as beneficially owned by such selling security holder includes: (i) 125% of the 707,547 shares of common stock (884,434 shares of common stock) potentially issuable upon conversion of a convertible note, principal amount of \$750,000, due August 29, 2010; (ii) 125% of the 300,000 shares of common stock (375,000 shares of common stock) potentially issuable as interest on the convertible note assuming a market price of \$0.75 at the time of issuance of such shares; and (iii) 125% of the 283,019 shares of common stock (353,774 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until August 29, 2010 at an exercise price of \$1.15 per share.

RHP Master Fund, Ltd. is a party to an investment management agreement with Rock Hill Investment Management, L.P., a limited partnership of which the general partner is RHP General Partner, LLC. Pursuant to such agreement, Rock Hill Investment Management directs the voting and disposition of shares owned by RHP Master Fund. Messrs. Wayne Bloch and Peter Lockhart own all of the interests in RHP General Partner. The aforementioned entities and individuals disclaim beneficial ownership of our common stock owned by the RHP Master Fund.

<sup>(6)</sup> The number of shares of common stock listed as beneficially owned by such selling security holder includes:  
February 24, 2006 Private Placement: (i) 200% of the 350,000 shares of common stock (700,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$350,000, due August 24, 2007; (ii) 150% of the 56,000 shares of common stock (84,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 723,585 shares of common stock (1,085,378 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

August 29, 2005 Private Placement: The number of shares of common stock listed as beneficially owned by such selling security holder includes 125% of the 226,415 shares of common stock (283,019 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until August 29, 2010 at an exercise price of \$1.15 per share.

Josh Silverman has investment and voting control over the shares of common stock which may be acquired on conversion of or as interest payments on the convertible notes or on exercise of the share purchase warrants. Mr. Silverman disclaims beneficial ownership of such securities.

<sup>(7)</sup> The number of shares of common stock listed as beneficially owned by such selling stockholder includes 388,889 shares of common stock potentially issuable upon the exercise of share purchase warrants, each share

purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Alexandra Investment Management, LLC, a Delaware limited liability company, serves as investment adviser to Alexandra Global Master Fund Ltd., a British Virgin Islands company. By reason of such relationship, Alexandra Investment Management, LLC may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexander Global Master Fund Ltd. Alexandra Investment Management, LLC disclaims beneficial ownership of such shares of common stock. Messrs. Mikhail A. Filimonov and Dimitri Sogoloff are managing members of Alexandra Investment Management, LLC. By reason of such relationships, Mr. Filimonov and Mr. Sogoloff may be deemed to share dispositive power over the shares of common stock stated as beneficially owned by Alexander Global Master Fund Ltd.. Mr. Filimonov and Mr. Sogoloff disclaim beneficial ownership of such shares of common stock.

- (8) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 11,111 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Ira M. Leventhal, a U.S. citizen is deemed to have dispositive and voting powers with respect to the shares of common stock currently owned, if any, and which may be acquired on exercise of the share purchase warrants. Mr. Leventhal disclaims beneficial ownership.
- (9) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 22,222 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Michael Coughlan exercises dispositive and voting powers with respect to the shares of common stock currently owned, if any, and which may be acquired on exercise of the share purchase warrants.
- (10) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 38,750 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Edwin Mecabe and Tai May Lee, jointly, exercise dispositive and voting powers with respect to the shares of common stock currently owned, if any, and which may be acquired on exercise of the share purchase warrants. Edwin Mecabe and Tai May Lee disclaim beneficial ownership of these securities."
- (11) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 44,445 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Ian Esrepan exercises dispositive and voting powers with respect to the shares of common stock currently owned, if any, and which may be acquired on exercise of the share purchase warrants.
- (12) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 11,126 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Basso Capital Management, L.P. is the Investment Manager to Basso Private Opportunity Holding Fund Ltd. Howard I. Fischer is a managing member of Basso GP, LLC, the General Partner of Basso Capital Management, L.P., and as such has investment power and voting control over these securities. Mr. Fischer disclaims beneficial ownership of these securities.
- (13) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 14,749 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Basso Capital Management, L.P. is the Investment Manager to Basso Multi-Strategy Holding Fund Ltd. Howard I. Fischer is a managing member of Basso GP, LLC, the General Partner of Basso Capital Management, L.P., and as such has investment power and voting control over these securities. Mr. Fischer disclaims beneficial ownership of these securities.
- (14) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 12,500 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share
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purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Michael E. Fein and Stephen E. Saltzstein, as principals of Atoll Asset Management, LLC, the Managing Member of Truk Opportunity Fund, LLC, exercise investment and voting control over the securities owned by Truk Opportunity Fund, LLC. Both Mr. Fein and Mr. Saltzstein disclaim beneficial ownership of the securities owned by Truk Opportunity Fund, LLC.

(15) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 11,111 shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until April 13, 2009, at an exercise price of \$1.25 per share. Frederick Berdon exercises dispositive and voting powers with respect to the shares of common stock currently owned, if any, and which may be acquired on exercise of the share purchase warrants.

(16) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 125% of the shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until August 29, 2010, at an exercise price of \$1.25 per share. Albert G. Lowenthal exercises dispositive and voting powers with respect to the shares of common stock currently owned by Oppenheimer & Co. Inc., if any, and which may be acquired on exercise of the share purchase warrants.

(17) The number of shares of common stock listed as beneficially owned by such selling stockholder includes 125% of the shares of common stock potentially issuable upon the exercise of share purchase warrants. Each share purchase warrant is exercisable until August 29, 2010, at an exercise price of \$1.25 per share.

(18) The number of shares of common stock listed as beneficially owned by such selling security holder includes: February 24, 2006 Private Placement: (i) 200% of the 150,000 shares of common stock (300,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$150,000, due August 24, 2007; (ii) 150% of the 24,000 shares of common stock (36,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 150,000 shares of common stock (225,000 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Lindsay A. Rosenwald, M.D. is the managing member of RAQ, LLC and exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants. Dr. Rosenwald is also Chairman, Chief Executive Officer and sole stockholder of Paramount BioCapital, Inc., an NASD member broker dealer.

(19) The number of shares of common stock listed as beneficially owned by such selling security holder includes: February 24, 2006 Private Placement: (i) 200% of the 250,000 shares of common stock (500,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$250,000, due August 24, 2007; (ii) 150% of the 40,000 shares of common stock (60,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 250,000 shares of common stock (375,000 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Otto W. Hoernig III exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

(20) The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 250,000 shares of common stock (500,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$250,000, due August 24, 2007; (ii) 150% of the 40,000 shares of common stock (60,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 250,000 shares of common stock (375,000 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Konrad Ackerman and Rainier Posch of Alpha Capital AG exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

(21) The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 182,500 shares of common stock (365,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$182,500, due August 24, 2007; (ii) 150% of the 29,200 shares of common stock (43,800 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 182,500 shares of common stock (273,750 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Mitch Levine, Managing Partner, of Enable Growth Partners LLP, exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

(22) The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 30,000 shares of common stock (60,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$30,000, due August 24, 2007; (ii) 150% of the 4,800 shares of common stock (7,200 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 30,000 shares of common stock (45,000 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Mitch Levine, Managing Partner, of Enable Opportunity Partners LLP exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

(23) The number of shares of common stock listed as beneficially owned by such selling security holder includes:

February 24, 2006 Private Placement: (i) 200% of the 37,500 shares of common stock (75,000 shares of common stock) potentially issuable upon conversion of or as principal repayments on a convertible note, principal amount of \$37,500, due August 24, 2007; (ii) 150% of the 6,000 shares of common stock (9,000 shares of common stock) potentially issuable as interest on the convertible note assuming an interest rate of 8% and a market price of \$0.75 at the time of issuance of such shares; and (iii) 150% of 30,000 shares of common stock (56,250 shares of common stock) potentially issuable upon the exercise of share purchase warrants, exercisable until February 24, 2011 at an exercise price of \$1.15 per share.

Mitch Levine, Managing Partner, of Pierce Diversified Strategy Master Fund LLC exercises voting and investment power over the shares of common stock currently owned and which may be acquired on conversion

of, as principal repayments upon or as interest payments on the convertible note and on exercise of the share purchase warrants.

We may require the selling security holders to suspend the sales of the securities offered by this prospectus upon the occurrence of any event that makes any statement in this prospectus or the related registration statement untrue in any material respect or that requires the changing of statements in these documents in order to make statements in those documents not misleading.

In the securities purchase agreement with the each of the investors in the February 24, 2006 private placement, we agreed to file this registration statement on or before March 29, 2006. After filing this registration statement, we are required to use our best efforts to cause this registration statement to become effective by May 29, 2006 or in the event of a full review of this registration statement by the Securities and Exchange Commission, by June 28, 2006. We will be required to keep the registration statement effective for a period of two (2) years from the date it becomes effective.

In the event that:

- we fail to file this registration statement by March 29, 2006;
- we fail to file a request for acceleration within five trading days of the date we are notified that this registration statement will not be reviewed or is not subject to further review by the Securities and Exchange Commission;
- prior to the date when this registration statement is first declared effective by the Securities and Exchange Commission, we fail to file a pre-effective amendment and otherwise respond in writing to comments made by the Securities and Exchange Commission within 10 trading days after the receipt of comments by or notice that such amendment is required in order for this registration statement to be declared effective;
- we fail to have this registration statement declared effective by May 29, 2006 or June 28, 2006, as applicable; or
- this prospectus is unavailable for more than 10 consecutive days;

(each of these is deemed to be a registration default) then our company will pay liquidated damages to each of the investors equal to 1% of the aggregate purchase price paid by each holder for the first 30 days after the date of default (on a pro-rated basis if less than 30 days) and 1% of the aggregate purchase price paid by each holder for every 30 day period thereafter (on a pro-rated basis if less than 30 days). The amount we may have to pay as liquidated damages is limited to 24% of the aggregate purchase price of \$2,000,000.

As part of the consideration for the issuance of the notes on February 24, 2006, we agreed to reduce the conversion of the notes issued on August 29, 2005 from \$1.06 to \$1.00 and reduce the exercise price of the warrants issued to four accredited investors on August 29, 2005 from \$1.25 to \$1.15. In addition, we agreed to amend the adjustment provisions of the notes and warrants issued in the August 29, 2005 private placement such that such adjustment provisions were replaced with the provisions contained in the notes and warrants issued on February 24, 2006. In addition, we agreed to issue additional warrants to purchase an aggregate of 1,307,547 of our common stock to the four accredited investors who participated in the private placement on August 29, 2005.

In the note agreement with the each of the investors in the August 29, 2005 private placement, we agreed to file a registration statement on or before October 2, 2005. We filed the registration statement on September 30, 2005. After filing the registration statement, we were required to use our best efforts to cause this registration statement to become effective by December 1, 2005 or in the event of a full review of this registration statement by the Securities and Exchange Commission, by December 31, 2005. The registration statement was declared effective on October 17, 2005. We will be required to keep the registration statement effective for a period of two (2) years from the date it became effective.



In the event that the prospectus is unavailable for more than 15 consecutive days or more than 30 days during any 12 month period, then our company will pay liquidated damages to each of the investors equal to 1% of the aggregate purchase price paid by each holder for the first 30 days after the date of default and 1% of the aggregate purchase price paid by each holder for the notes for every 30 day period thereafter.

In the securities purchase agreement with each of the investors in the April, 2004 private placement, we agreed to file a registration statement on or before May 13, 2004. We filed the registration statement on May 17, 2004. We are required to keep the registration statement effective for a period of two (2) years from the effective date of the registration statement. In the event that the prospectus relating to the April 2004 private placement is unavailable for more than 15 consecutive days or more than 30 days during any 12 month period, which is deemed to be a registration default, then we will pay liquidated damages to each of the investors equal to 1.5% of the aggregate purchase price paid by each holder. If we fail to pay any partial liquidated damages in full within seven days after the date payable, we will pay interest thereon at a rate of 10% per annum to each investor, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

#### FEBRUARY 24, 2006 PRIVATE PLACEMENT OF

#### CONVERTIBLE NOTES AND WARRANTS

The convertible notes and the share purchase warrants were issued in connection with a private placement where we sold an aggregate value of \$2.0 million in convertible notes to ten accredited investors. The convertible notes mature on August 24, 2007.

#### Interest, Maturity And Prepayment

The convertible notes bear interest on the outstanding principal amount until the convertible notes are paid in full at an annual rate of the greater of six percent (6%) or LIBOR plus 300 basis points. Pursuant to the terms of the note agreement, the notes are convertible into shares of our common stock. The principal of \$2,000,000 is to be repaid in 14 monthly installments commencing on June 24, 2006. These repayments may be payable in cash or in shares of common stock at the market price (as defined in the note). Interest accrues on the unpaid balance of the principal amount of each note, is payable on a quarterly basis commencing on March 31, 2006 and may be payable in cash or in shares of common stock at the market price (as defined in the note). Market price is defined in the note to equal 90% of the volume weighted average trading price per share for the 20 day period immediately prior to the date the principal repayment or the interest payment is due. The company may not make a principal repayment or interest payment in shares of common stock unless the closing price on the day the principal repayment or interest is due, as the case may be, is greater than the volume weighted average trading price for the 20 trading days preceding such principal repayment or interest payment date.

All principal and interest on the convertible notes shall be due on August 24, 2007.

We may prepay the convertible notes at any time by providing thirty (30) days written notice prior to such prepayment date by paying 115% of the principal amount plus accrued but unpaid, interest and any other amounts owing under the notes.

#### Conversion Provisions, Conversion Price and Adjustments

The holders, at their option, may convert, at any time until the close of business on the business day before the date of final maturity of the convertible notes, all or any portion of the principal amount of the convertible notes into fully paid and non-assessable shares of our common stock at the conversion price in effect at the date of conversion.

The conversion price shall be equal to a fixed conversion price of \$1.00, subject to adjustment.

The fixed conversion price of \$1.00 will be adjusted on the occurrence of any one of the following events:

- we declare a dividend payable in, or other distribution of, additional shares of our common stock;



- we subdivide or reverse split our outstanding shares of common stock;
- we make a distribution of securities (other than shares of our common stock); or
- if we issue or sell any shares of common stock or any warrants, options or other rights to subscribe for or purchase any additional shares of common stock or any convertible securities, whether or not the rights to exchange or convert thereunder are immediately exercisable other than pursuant to (i) options, warrants or other convertible securities that are outstanding on the date hereof; (ii) shares or options issued to employees, officers, directors, advisors or consultants pursuant to stock option plans or other employee benefit or incentive plans adopted by the company; or (iii) any issuance of securities issued in connection with bona fide joint venture or development agreements or strategic partnerships or similar agreements approved by our board of directors, the primary purpose of which is not to raise equity capital.

If any one of these events happens, then the fixed conversion price will generally be adjusted to equal the lower effective price at which such securities were issued.

#### Negative Covenants

As part of the issuance of the convertible notes and share purchase warrants, we agreed not to:

- take or permit any action, or cause or permit any subsidiary to take or permit any action, that impairs or adversely affects the rights of the holders of the notes;
- incur any indebtedness, liability or obligation that is senior to or pari passu with the notes in right of payment, whether with respect to principal, interest or upon liquidation or dissolution or otherwise, except that we may, in the ordinary course of business, incur indebtedness secured by purchase money security interests, indebtedness under capital lease obligations and indebtedness from a commercial lender for the purpose of financing receivables or inventory in an amount not to exceed \$100,000 in the aggregate at any time;
- directly or indirectly redeem purchase or otherwise acquire any capital stock or set aside any monies for such a redemption, purchase or other acquisition; or
- issue any security which price or number floats or resets or otherwise varies or is subject to adjustment based upon the market price of our common stock.

In addition, we agreed not to, without the prior written consent of the holders of not less than fifty percent (50%) of the aggregate principal amount of convertible notes then outstanding:

- change the nature of our business to any business which is fundamentally distinct and separate from the business currently conducted by us;
- purchase, redeem or make any other distribution with respect to any shares of capital stock or any other securities that are convertible into or exercisable for such stock except for repurchases of common stock from non-officer employees upon termination of employment; or
- take any other actions similar to the foregoing in effect.

#### Events of Default

We will be considered in default of the convertible notes if any of the following events, among others, occurs:

- we fail to pay any amount due under any of the convertible notes immediately;



- we fail to comply with any of the other agreements contained in the convertible notes or other related agreements after we are given twenty (20) days notice of such non-compliance;
- any representation, warranty, certificate or other statement (financial or otherwise) made or furnished by or on behalf of our company in connection with the convertible note is false, incorrect, incomplete or misleading in any material respect;
- we (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian over our company or our assets; (ii) are unable to pay our debts as they mature; (iii) make a general assignment for the benefit of our creditors; (iv) are dissolved or liquidated in whole or in part; or (v) we or someone else commences a bankruptcy, insolvency or reorganization proceeding;
- we breach any of our obligations under any other bond, debenture, note or other evidence of indebtedness involving an amount exceeding \$500,000;
- our common stock is not listed or quoted on a trading market for five or more trading days;
- we fail to deliver a share certificate within five trading days after delivery of such certificate is required;
- we fail to have a sufficient number of authorized but unissued and unreserved shares available to issue upon conversion of the notes;
- we effect or publicly announce our intentions to effect any exchange recapitalization or other transaction that effectively rewards or requires physical delivery of share certificates; or
- the effectiveness of the registration statement required to be filed in connection with the notes issued on February 24, 2006 lapses for five or more trading days.

If an event of default occurs, the holders of a convertible note can elect to require us to pay all of the outstanding principal amount, plus all other accrued and unpaid amounts under the convertible note.

Some of the events of default include matters over which we may have some, little or no control. If a default occurs and we cannot pay the amounts payable under the convertible notes in cash (including any interest on such amounts and any applicable late fees under the convertible notes), the holders of the notes may protect and enforce their rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained in the convertible notes, in the related securities purchase agreement or in any document or instrument delivered in connection with or pursuant to the convertible notes, or to enforce the payment of the outstanding convertible notes or any other legal or equitable right or remedy. This would have an adverse effect on our continuing operations.

As security for the payment and satisfaction of all of our obligations under the notes issued on February 24, 2006, we and our subsidiaries granted a continuing first priority security interest in and to all of our and our subsidiaries' assets (which we now own or which we acquire in the future) to the holders of the notes. The assets included all cash and investment accounts, accounts receivable, contracts, notes, bills, inventory, machinery, equipment, supplies, furniture, furnishings, fixtures, corporate or business records, inventions, designs, patents, patent applications, trademarks, trademark registrations and applications, goodwill, trade names, trade secrets, trade processes, copyrights, copyright registrations and applications, licenses, permits, franchises, customer lists, computer programs, all claims under guaranties and tax refund claims.

As security for the payment and satisfaction of all of our obligations under the notes issued on February 24, 2006, we also pledged and collaterally assigned to the holders a first priority security interest in the shares of our subsidiaries and in any and all cash, securities, dividends, rights, and other property at any time and from time to time declared or distributed in respect of or in exchange for any or all of such shares.

If we default on the notes, the holders of the notes have the following rights:

- all of the rights and remedies of a secured party under the British Columbia Personal Property Security Act and such additional rights and remedies to which a secured party is entitled under the laws in any jurisdiction;
- to request that we assemble all of our assets for the secured parties;
- the right to make any reasonable compromise or settlement deemed desirable with respect to any of our assets and may extend the time of payment, arrange for payment in installments, or otherwise modify the terms of any of the assets;
- the right to demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for any of our assets;
- upon giving twenty (20) business days prior written notice to us, to sell, lease, assign or otherwise dispose of all or any of our assets at a public or private sale; and
- the right to exercise all voting, consensual and other powers of ownership in connection with the shares of our subsidiaries.

#### Share Purchase Warrants

In connection with the sale of our convertible notes, we also sold an aggregate of 3,307,547 share purchase warrants to the initial purchasers of the convertible notes. The warrants entitle the holders and the placement agent to purchase an aggregate of 3,307,547 shares of our common stock at \$1.15 per share, subject to adjustment, and are exercisable at any time until February 24, 2011.

The exercise price of the warrants will be adjusted on the occurrence of any one of the following events:

- we declare a dividend payable in, or other distribution of, additional shares of our common stock;
- we subdivide or reverse split our outstanding shares of common stock;
- we make a distribution of securities (other than shares of our common stock);
- if we issue or sell any shares of common stock or any warrants, options or other rights to subscribe for or purchase any additional shares of common stock or any convertible securities, whether or not the rights to exchange or convert thereunder are immediately exercisable other than pursuant to (i) options, warrants or other convertible securities that are outstanding on the date hereof; (ii) shares or options issued to employees, officers, directors, advisors or consultants pursuant to stock option plans or other employee benefit or incentive plans adopted by the company; or (iii) any issuance of securities issued in connection with bona fide joint venture or development agreements or strategic partnerships or similar agreements approved by our board of directors, the primary purpose of which is not to raise equity capital.

If any one of these events happens, then the exercise price will generally be adjusted to equal the lower effective price at which such securities were issued.

#### Consequences of Adjustments in the Conversion Price of the Convertible Notes or Exercise Price of the Share Purchase Warrants

Any adjustments to the fixed conversion price which reduces the conversion price of the convertible notes and the exercise price of the share purchase warrants will result in the holders of the convertible notes receiving more shares upon conversion of the convertible notes and exercise of the share purchase warrants. If the holders of the



convertible notes and the share purchase warrants are entitled to receive a greater number of shares of our common stock due to adjustments to the conversion price, then:

- the other holders of common stock will experience substantial and increasing dilution;
- to the extent the holders of the convertible notes convert the convertible notes, exercise the share purchase warrants and sell their shares of common stock, the price of our common stock may decrease and continue to decrease as these additional shares are sold in the market; and
- the issuance of the shares and any decrease in the market price may make it more difficult for us to raise capital or sell equity securities in the future.

Any adjustment which reduces the conversion price of the convertible notes or the exercise price of the share purchase warrants may also result in a decrease in the market price of our common stock.

#### AUGUST 29, 2005 PRIVATE PLACEMENT OF

#### CONVERTIBLE NOTES AND WARRANTS

The convertible notes and the share purchase warrants were issued in connection with a private placement where we sold an aggregate value of \$2.1 million in convertible notes to four accredited investors. The convertible notes mature on August 29, 2010.

As part of the consideration for the issuance of the notes on February 24, 2006, we agreed to reduce the conversion of the notes issued on August 29, 2005 from \$1.06 to \$1.00 and reduce the exercise price of 792,453 warrants issued on August 29, 2005 from \$1.25 to \$1.15. In addition, we agreed to amend the adjustment provisions of the notes and warrants issued in the August 29, 2005 private placement such that such adjustment provisions were replaced with the provisions contained in the notes and warrants issued on February 24, 2006. In addition, we agreed to issue additional warrants to purchase an aggregate of 1,307,547 of our common stock to the four accredited investors who participated in the private placement on August 29, 2005.

#### Interest, Maturity And Prepayment

The convertible notes bear interest on the outstanding principal amount until the convertible notes are paid in full at an annual rate of six percent (6%). Interest on the convertible notes is payable quarterly in cash or in shares of our common stock, with the number of shares to be determined by dividing the interest payable by the then current market price which is defined to be equal to the closing sale price of our company's common stock (or if no closing sale prices are reported, the average of the closing bid and ask prices) for the 20 day period immediately prior to the date the interest payment is due.

All principal and interest on the convertible notes shall be due on August 29, 2010.

We may prepay the convertible notes at any time after the date which is thirty (30) days after this registration statement is declared effective as follows: (i) 120% of the principal amount plus accrued interest until August 29, 2006; (ii) 115% of the principal amount plus accrued interest from August 29, 2006 until August 29, 2007; (iii) 110% of the principal amount plus accrued interest from August 29, 2007 until August 29, 2008; (iv) 105% of the principal amount plus accrued interest from August 29, 2008 until August 29, 2009; and (v) 100% of the principal amount plus accrued interest thereafter until maturity.

#### Conversion Provisions, Conversion Price and Adjustments

The holders, at their option, may convert, at any time until the close of business on the business day before the date of final maturity of the convertible notes, all or any portion of the principal amount of the convertible notes into fully paid and non-assessable shares of our common stock at the conversion price in effect at the date of conversion. The holders are required to convert a minimum of \$100,000 of principal for any conversion.





In connection with the February 24, 2006 private placement, we agreed to reduce the conversion price of the notes issued on August 29, 2005 from \$1.06 to \$1.00 and amend the adjustment provisions such that these provisions were replaced with the provisions contained in the notes issued on February 24, 2006.

The conversion price shall be equal to a fixed conversion price of \$1.00, subject to adjustment.

The fixed conversion price of \$1.00 will be adjusted on the occurrence of any one of the following events:

- we declare a dividend payable in, or other distribution of, additional shares of our common stock;
- we subdivide or reverse split our outstanding shares of common stock;
- we make a distribution of securities (other than shares of our common stock); or
- if we issue or sell any shares of common stock or any warrants, options or other rights to subscribe for or purchase any additional shares of common stock or any convertible securities, whether or not the rights to exchange or convert thereunder are immediately exercisable other than pursuant to (i) options, warrants or other convertible securities that are outstanding on the date hereof; (ii) shares or options issued to employees, officers, directors, advisors or consultants pursuant to stock option plans or other employee benefit or incentive plans adopted by the company; or (iii) any issuance of securities issued in connection with bona fide joint venture or development agreements or strategic partnerships or similar agreements approved by our board of directors, the primary purpose of which is not to raise equity capital.

If any one of these events happens, then the fixed conversion price will generally be adjusted to equal the lower effective price at which such securities were issued.

#### Negative Covenants

As part of the issuance of the convertible notes and share purchase warrants, we agreed to for a period of thirty (30) days after the effectiveness of this registration statement not to authorize or issue any shares of our common stock. In addition, for so long as at least fifty percent (50%) in aggregate principal amount of the convertible notes is outstanding, we agreed not to, without the prior written consent of the holders of not less than fifty percent (50%) of the aggregate principal amount of convertible notes then outstanding:

- amend our Certificate of Incorporation to adversely affect the rights of the holders of the convertible notes or to authorize any other class or series of stock in addition to common stock and the preferred stock currently authorized or to increase the number of authorized shares of common stock or preferred stock, unless required to comply with the convertible notes or share purchase warrants;
- amend the convertible notes;
- declare or pay any dividends or make any distributions on any of our securities (other than the convertible notes);
- redeem, purchase or otherwise acquire any of our securities ranking junior or *pari passu* with the convertible notes except for repurchases of common stock from employees or consultants upon termination of employment or contractual arrangements;
- authorize of issue any equity securities having rights or preferences senior to or *pari passu* with the convertible notes with respect to voting, dividends or distributions, conversion, redemption or liquidation;
- merge with or into or consolidate with any other corporation, or sell, lease, or otherwise dispose of all or substantially all of its properties or assets except in a sale resulting in consideration to our securityholders with a value of at least \$4 per share;



- sell, license, or otherwise dispose of all or substantially all of our intellectual property assets;
- voluntarily dissolve, liquidate, or otherwise cease our operations;
- materially change the nature of our business;
- incur any indebtedness in excess of \$5,000,000 in the aggregate at any one time outstanding or guarantee, directly or indirectly, or permit any subsidiary to guarantee, directly or indirectly, any indebtedness except for trade accounts of our company or any subsidiary arising in the ordinary course of business;
- create, incur, assume or suffer to exist any material mortgage, pledge, security interest, assignment, lien (statutory or other), claim, encumbrance, license or sublicense or security interest in or upon any of the assets of our company, except for liens for taxes, assessments or similar charges incurred in the ordinary course of business that are not yet due and payable and liens related to permitted indebtedness;
- enter into any agreement that would limit our company's ability to perform its obligations in respect of the convertible notes or shares issuable on conversion of the convertible notes;
- create, or permit any subsidiary to own any stock or other securities of, any subsidiary or other corporation, partnership, or other entity unless it is wholly owned by our company; or
- take any other actions similar to the foregoing in effect.

#### Events of Default

We will be considered in default of the convertible notes if any of the following events, among others, occurs:

- we fail to pay any amount due under a convertible note within fifteen (15) days of any notice sent to us by the holder of the convertible note that we are in default of our obligation to pay;
- we fail to comply with any of the other agreements contained in the convertible note after we are given ten (10) days written notice of such non-compliance;
- any representation, warranty, certificate or other statement (financial or otherwise) made or furnished by or on behalf of our company in connection with the convertible note is false, incorrect, incomplete or misleading in any material respect;
- we (i) apply for or consent to the appointment of a receiver, trustee, liquidator or custodian over our company or our assets; (ii) are unable to pay our debts as they mature; (iii) make a general assignment for the benefit of our creditors; (iv) are dissolved or liquidated in whole or in part; or (v) or someone else commences a bankruptcy, insolvency or reorganization proceeding;
- we breach any of our obligations under any other bond, debenture, note or other evidence of indebtedness involving an amount exceeding \$1,000,000; or
- one or more judgments for the payment of money in an amount in excess of \$1,500,000 and rendered against our company, which judgments shall remain undischarged for a period of thirty (30) days.

If an event of default occurs, the holders of a convertible note can elect to require us to pay all of the outstanding principal amount, plus all other accrued and unpaid amounts under the convertible note.

Some of the events of default include matters over which we may have some, little or no control. If a default occurs and we cannot pay the amounts payable under the convertible notes in cash (including any interest on such amounts and any applicable late fees under the convertible notes), the holders of the notes may protect and enforce their



rights or remedies either by suit in equity or by action at law, or both, whether for the specific performance of any covenant, agreement or other provision contained in the convertible notes, in the related securities purchase agreement or in any document or instrument delivered in connection with or pursuant to the convertible notes, or to enforce the payment of the outstanding convertible notes or any other legal or equitable right or remedy. This would have an adverse effect on our continuing operations.

#### Share Purchase Warrants

In connection with the sale of our convertible notes, we also sold an aggregate of 792,453 share purchase warrants to the initial purchasers of the convertible notes. We also issued 166,415 warrants to a placement agent on the same terms. The warrants entitle the holders and the placement agent to purchase an aggregate of 958,868 shares of our common stock at \$1.25 per share, subject to adjustment, and are exercisable at any time until August 29, 2010.

In connection with the February 24, 2006 private placement, we agreed to reduce the exercise price of 792,453 warrants issued on August 29, 2005 from \$1.25 to \$1.15 and amend the adjustment provisions such that these provisions were replaced with the provisions contained in the warrants issued on February 24, 2006.

The exercise price of the warrants will be adjusted on the occurrence of any one of the following events:

- we declare a dividend payable in, or other distribution of, additional shares of our common stock;
- we subdivide or reverse split our outstanding shares of common stock;
- we make a distribution of securities (other than shares of our common stock);
- if we issue or sell any shares of common stock or any warrants, options or other rights to subscribe for or purchase any additional shares of common stock or any convertible securities, whether or not the rights to exchange or convert thereunder are immediately exercisable other than pursuant to (i) options, warrants or other convertible securities that are outstanding on the date hereof; (ii) shares or options issued to employees, officers, directors, advisors or consultants pursuant to stock option plans or other employee benefit or incentive plans adopted by the company; or (iii) any issuance of securities issued in connection with bona fide joint venture or development agreements or strategic partnerships or similar agreements approved by our board of directors, the primary purpose of which is not to raise equity capital.

If any one of these events happens, then the exercise price will generally be adjusted to equal the lower effective price at which such securities were issued.

#### Consequences of Adjustments in the Conversion Price of the Convertible Notes or Exercise Price of the Share Purchase Warrants

Any adjustments to the fixed conversion price which reduces the conversion price of the convertible notes and the exercise price of the share purchase warrants will result in the holders of the convertible notes receiving more shares upon conversion of the convertible notes and exercise of the share purchase warrants. If the holders of the convertible notes and the share purchase warrants are entitled to receive a greater number of shares of our common stock due to adjustments to the conversion price, then:

- the other holders of common stock will experience substantial and increasing dilution;
- to the extent the holders of the convertible notes convert the convertible notes, exercise the share purchase warrants and sell their shares of common stock, the price of our common stock may decrease and continue to decrease as these additional shares are sold in the market; and
- the issuance of the shares and any decrease in the market price may make it more difficult for us to raise capital or sell equity securities in the future.



Any adjustment which reduces the conversion price of the convertible notes or the exercise price of the share purchase warrants may also result in a decrease in the market price of our common stock.

#### APRIL 2004 PRIVATE PLACEMENT OF SHARES AND WARRANTS

On April 13, 2004, we sold to nine accredited investors an aggregate of 2,219,611 shares of our common stock, Series A share purchase warrants to acquire an additional 554,903 shares of our common stock and Series B share purchase warrants to acquire an additional 1,109,806 shares of our common stock for gross proceeds of \$4,994,125.

The Series A share purchase warrants had an exercise price of \$3.50 per share until it was reduced to \$1.25 pursuant to an agreement between our company and the investors on September 6, 2005. The Series A share purchase warrants expire on April 13, 2009. The Series B share purchase warrants had an exercise price of \$2.25 per share and those warrants which were not exercised expired on February 2, 2005.

In connection with this private placement, we paid a placement fee of \$299,647, being equal to six percent (6%) of the aggregate gross proceeds of the private placement plus any monies we receive from the exercise of the Series A and Series B warrants. We also paid \$10,000 to the investor's attorney to reimburse the investors for their legal costs.

As an inducement to the early exercise of the Series B share purchase warrants, our company temporarily reduced the exercise price of the Series B share purchase warrants to \$1.90 per share if such warrants were exercised on or before November 5, 2004. On November 5, 2004, holders of the Series B share purchase warrants exercised 309,806 of the Series B share purchase warrants for gross proceeds of \$588,605. Our company paid a placement fee in cash of \$35,317, being equal to 6% of the gross proceeds received from the warrant exercise, as required under the original private placement agreement to a placement agent who originally identified the investors in April 2004. The balance of the Series B share purchase warrants which were not exercised expired on February 2, 2005.

In the securities purchase agreement with each of the investors in the April 2004 private placement, we agreed to file a registration statement on or before May 13, 2004. We filed the registration statement on May 17, 2004. We are required to keep the registration statement effective for a period of two (2) years from the effective date of the registration statement.

In the event that the prospectus relating to the April 2004 private placement is unavailable for more than 15 consecutive days or more than 30 days during any 12 month period, which is deemed to be a registration default, then we will pay liquidated damages to each of the investors equal to 1.5% of the aggregate purchase price paid by each holder. If we fail to pay any partial liquidated damages in full within seven days after the date payable, we will pay interest thereon at a rate of 10% per annum to each investor, accruing daily from the date such partial liquidated damages are due until such amounts, plus all such interest thereon, are paid in full.

#### PLAN OF DISTRIBUTION

The selling security holders may, from time to time, sell all or a portion of the shares of common stock on any market upon which the common stock may be listed or quoted (currently the OTC Bulletin Board) in privately negotiated transactions or otherwise. Such sales may be at fixed prices prevailing at the time of sale, at prices related to the market prices or at negotiated prices. The shares of common stock being offered for resale by this prospectus may be sold by the selling security holders by one or more of the following methods, without limitation:

- block trades in which the broker or dealer so engaged will attempt to sell the shares of common stock as agent but may position and resell a portion of the block as principal to facilitate the transaction;
- purchases by a broker or dealer as principal and resales by the broker or dealer for its account pursuant to this prospectus;
- an exchange distribution in accordance with the rules of the applicable exchange;





- ordinary brokerage transactions and transactions in which the broker solicits purchasers;
- privately negotiated transactions;
- market sales (both long and short to the extent permitted under the federal securities laws);
- at the market to or through market makers or into an existing market for the shares;
- through transactions in options, swaps or other derivatives (whether exchange listed or otherwise); and
- a combination of any of the aforementioned methods of sale.

In the event of the transfer by any of the selling security holders of its share purchase warrants or common shares to any pledgee, donee or other transferee, we will amend this prospectus and the registration statement of which this prospectus forms a part by the filing of a post-effective amendment in order to include the pledgee, donee or other transferee in place of the selling security holder who has transferred his, her or its shares.

In effecting sales, brokers and dealers engaged by the selling security holders may arrange for other brokers or dealers to participate. Brokers or dealers may receive commissions or discounts from a selling security holder or, if any of the broker-dealers act as an agent for the purchaser of such shares, from a purchaser in amounts to be negotiated which are not expected to exceed those customary in the types of transactions involved. Broker-dealers may agree with a selling security holder to sell a specified number of the shares of common stock at a stipulated price per share. Such an agreement may also require the broker-dealer to purchase as principal any unsold shares of common stock at the price required to fulfil the broker-dealer commitment to the selling security holder if such broker-dealer is unable to sell the shares on behalf of the selling security holder. Broker-dealers who acquire shares of common stock as principal may thereafter resell the shares of common stock from time to time in transactions which may involve block transactions and sales to and through other broker-dealers, including transactions of the nature described above. Such sales by a broker-dealer could be at prices and on terms then prevailing at the time of sale, at prices related to the then-current market price or in negotiated transactions. In connection with such resales, the broker-dealer may pay to or receive from the purchasers of the shares commissions as described above.

The selling security holders and any broker-dealers or agents that participate with the selling security holders in the sale of the shares of common stock may be deemed to be underwriters within the meaning of the Securities Act of 1933 in connection with these sales. In that event, any commissions received by the broker-dealers or agents and any profit on the resale of the shares of common stock purchased by them may be deemed to be underwriting commissions or discounts under the Securities Act of 1933.

From time to time, any of the selling security holders may pledge shares of common stock pursuant to the margin provisions of customer agreements with brokers. Upon a default by a selling security holder, their broker may offer and sell the pledged shares of common stock from time to time. Upon a sale of the shares of common stock, the selling security holders intend to comply with the prospectus delivery requirements under the Securities Act of 1933 by delivering a prospectus to each purchaser in the transaction. We intend to file any amendments or other necessary documents in compliance with the Securities Act of 1933 which may be required in the event any of the selling security holders defaults under any customer agreement with brokers.

To the extent required under the Securities Act of 1933, a post effective amendment to this registration statement will be filed disclosing the name of any broker-dealers, the number of shares of common stock involved, the price at which the common stock is to be sold, the commissions paid or discounts or concessions allowed to such broker-dealers, where applicable, that such broker-dealers did not conduct any investigation to verify the information set out or incorporated by reference in this prospectus and other facts material to the transaction.

We and the selling security holders will be subject to applicable provisions of the Exchange Act and the rules and regulations under it, including, without limitation, Rule 10b-5, and, insofar as a selling security holder is a distribution participant and we, under certain circumstances, may be a distribution participant, under Regulation M. All of the foregoing may affect the marketability of the common stock.



All expenses of the registration statement including, but not limited to, legal, accounting, printing and mailing fees are and will be borne by us. Any commissions, discounts or other fees payable to brokers or dealers in connection with any sale of the shares of common stock will be borne by the selling security holders, the purchasers participating in such transaction, or both.

Any shares of common stock covered by this prospectus which qualify for sale pursuant to Rule 144 under the Securities Act of 1933, as amended, may be sold under Rule 144 rather than pursuant to this prospectus.

#### LEGAL PROCEEDINGS

Other than as set forth below, we know of no material, active or pending legal proceedings against our company, nor are we involved as a plaintiff in any material proceeding or pending litigation. There are no proceedings in which any of our directors, officers or affiliates, or any registered or beneficial shareholder, is an adverse party or has a material interest adverse to our interest.

On June 21, 2001, Reliability Engineering Associates Limited commenced a lawsuit in the Supreme Court of British Columbia (Vancouver Registry No. S013516) against Bulldog Technologies (BC) Inc. claiming CDN\$85,600 (approximately \$75,300)(for a design fee of CDN\$80,000 (approximately \$70,400) plus goods and services tax), CDN\$12,198 (approximately \$10,700) (on account of delay costs), general damages, special damages, court ordered interest and costs for services performed pursuant to a written agreement dated for reference October 30, 2000. On October 17, 2001, Bulldog Technologies (BC) filed a Statement of Defence and Counterclaim. Bulldog Technologies (BC)'s defence alleges that the services were not performed or were performed negligently or inadequately and as a result no monies are owing to Reliability. We believe that there is no substantive merit to the claims made by Reliability and we intend to vigorously defend the action. Bulldog Technologies (BC)'s counterclaim alleges that since Reliability did not provide the services contracted for, it should return 200,000 shares that we issued to Reliability in advance towards payment. Accordingly, we are seeking an order that Reliability return 200,000 shares of our common stock or, alternatively, that the shares be cancelled; in the alternative, damages for breach of contract; costs and court ordered interest.

On February 8, 2005, Reliability commenced a lawsuit in the Supreme Court of British Columbia (Vancouver Registry No. S050718) against our company claiming damages for conversion and punitive damages for failing to deliver the shares that form the subject matter of the lawsuit filed in the Supreme Court of British Columbia under Vancouver Registry No. S013516. We believe that there is no substantive merit to the claims made by Reliability and intend to vigorously defend the action.

We commenced an action in the Supreme Court of British Columbia (Vancouver Registry No. S042363) against Reidar Ostensen and Stargate Industries Ltd. We claim: (i) damages arising from the breach of an agreement made in or about February 2000 between Bulldog Technologies (Nevada) Inc. and Reidar Ostensen, whereby Reidar Ostensen promised, among other things, to provide certain services to Bulldog Technologies (Nevada), including but not limited to serving as an officer and director of Bulldog Technologies (Nevada), in exchange for receiving 150,000 shares of common stock of Bulldog Technologies (Nevada); (ii) conversion of certain property belonging to Bulldog Technologies (Nevada) by Reidar Ostensen to his own use; and (iii) defamation. A Statement of Defence and Counterclaim was filed on July 23, 2004. The Statement of Defence alleges that the defendants were entitled to the shares, along with other shares issued by Bulldog Technologies (Nevada) to Reidar Ostensen in the name of Roseg Management Ltd., and that representations were made by Bulldog Technologies (Nevada) that the defendants would be entitled to an exchange of their shares of Bulldog Technologies (Nevada) for shares of our company upon completion of the merger between Bulldog Technologies (Nevada) and our company and that the defendants consented to the merger in reliance of that representation. The Counterclaim of the defendants alleges that our company is in breach of the merger agreement and has caused loss and damage to the defendants. We filed a Statement of Defence to the Counterclaim on August 25, 2004. We believe that there is no substantive merit to the claims made by the defendants and we intend to vigorously defend the action.

In early May 2004, Ronald G. Cranfield put our company on notice that he is contemplating measures to enforce an oral agreement that he claims he has entered into with us. On October 25, 2005, Mr. Cranfield commenced an action against Bulldog Technologies (BC) Inc. and its president, John Cockburn, in the Supreme Court of British

Columbia, New Westminster Registry File Number S95050. Mr. Cranfield alleges breach of a written contract dated June 11, 2001, as amended, and is seeking, among other things, issuance to himself of 82,000 shares in the capital stock of our company and grant to his company, R.G.C. & Associates Travel Ltd., of exclusive distribution rights of our company's products in Japan and Korea. On February 1, 2006, a Consent Dismissal Order was granted dismissing the action against John Cockburn, as a prior agreement between the parties bars an action against Mr. Cockburn. On January 17, 2006, we filed a Statement of Defence and Counterclaim. In our counterclaim, we are seeking damages for breach of contract by Mr. Cranfield for failing to provide fundraising services to our company. We believe that there is no substantive merit to the claims made by Mr. Cranfield and intend to vigorously defend the action. A trial of the action is currently scheduled for May 10 and 11, 2006.

On December 20, 2004, 635002 B.C. Ltd. commenced an action against our company in the Provincial Court of British Columbia (Small Claims Court), Richmond Registry File Number 204-18983. 635002 B.C. alleges breach of contract in connection with a Display Rental Agreement dated May 19, 2000 between Sign-O-Lite, Division of 32262 B.C. Ltd. and our company, which agreement was assigned by Sign-O-Lite to 635002 B.C. 635002 B.C. is suing for a total debt of \$1,443. We filed a Reply to the Notice of Claim on January 4, 2005, as we believe that there is no substantive merit to the claim made by 635002 B.C. We intend to vigorously defend the action. A trial of the action has been scheduled for March 28, 2006.

#### DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS

All directors of our company hold office until the next annual meeting of the stockholders or until their successors have been elected and qualified. The officers of our company are appointed by our board of directors and hold office until their death, resignation or removal from office. Our directors and executive officers, their ages, positions held, and duration as such, are as follows:

<b>Name</b>	<b>Position Held with the Company</b>	<b>Age</b>	<b>Date First Elected or Appointed</b>
<i>John Cockburn</i>	<i>President, Chief Executive Officer, Secretary and Director</i>	<i>63</i>	<i>November 7, 2003</i>
<i>Brett Millar</i>	<i>Director</i>	<i>44</i>	<i>December 1, 2004</i>
<i>Steven Flores</i>	<i>Director</i>	<i>55</i>	<i>December 22, 2004</i>
<i>Scott Smith</i>	<i>Director</i>	<i>47</i>	<i>November 30, 2005</i>
<i>Matthew Swee Kong Yoon</i>	<i>Chief Financial Officer and Treasurer</i>	<i>49</i>	<i>May 1, 2004</i>
<i>Heeter Robin Wald</i>	<i>Chief Technical Officer</i>	<i>30</i>	<i>September 1, 2003</i>
<i>Denis Beaudoin</i>	<i>Director of Engineering</i>	<i>48</i>	<i>October 1, 2004</i>
<i>Business Experience</i>			

The following is a brief account of the education and business experience of each director, executive officer and key employee during at least the past five years, indicating each person's principal occupation during the period, and the name and principal business of the organization by which he was employed.

*John Cockburn, President, Chief Executive Officer, Secretary and Director*

On November 7, 2003, John Cockburn was appointed as a director and officer of our company, assuming the positions of president, treasurer and secretary. Mr. Cockburn resigned as treasurer on May 21, 2004. Prior to

becoming a director of our company, Mr. Cockburn was the president, chief executive officer and director of Bulldog Technologies (Nevada) since January 2000 and Bulldog Technologies (BC) since September 1998. Mr. Cockburn has held a variety of positions over the past forty years, primarily in the engineering and security fields. His experience includes management, estimating, design, sales and marketing and installations. Since his immigration to Canada in 1975, Mr. Cockburn has been involved in the design of lighting systems, hydro systems and closed circuit television (CCTV) systems, and various types of custom security systems. From May 1976 to September 1982, he held the position of General Manager at Northern Pacific Security Systems, Nor Pac Electric and Nor Pac Lighting in Vancouver, Canada. Mr. Cockburn went on to develop and operate London Alarms Ltd., installing high quality security systems for seven years from October 1982 to September 1990. With a diploma in electrical engineering, Mr. Cockburn designed and built the original container security system, the predecessor of the BOSS Online Security Systems.

*Brett Millar, Director*

Brett Millar was appointed as a director of our company on December 1, 2004. Since 2004, Mr. Millar has been employed by Cisco Systems, Inc. as Senior Manager, Brand Protection - Americas. From 1989 to 2002, Mr. Millar was a former Supervisory Special Agent with the Federal Bureau of Investigation (FBI). During his 13 years with the FBI, he specialized in major theft, black marketing and supply chain investigations through the United States. Mr. Millar has received numerous government and industry awards for his investigative efforts. After leaving the FBI, from 2002 to 2004 Mr. Millar was president and chief executive officer of his own consulting firm, Brett Millar International and devoted significant time and effort to the development of advanced tracking systems and supply chain security. Mr. Millar has lectured and instructed before the National Cargo Security Council, the American Trucking Association, the Food Marketing Institute, the International Mass Retailers Association, the Technology Asset Protection Association, and various other industry groups. Mr. Millar is a member of the National Cargo Security Council and the Association of Certified Fraud Examiners. Mr. Millar is a former infantry captain with the United States Army and is a graduate of California Polytechnic State University in San Louis Obispo California.

*Steven Flores, Director*

Steven Flores was appointed as a director of our company on December 22, 2004. Mr. Flores has over thirty-five years of accounting experience as an accountant with organizations including Price-Waterhouse-Coopers, Xerox Corporation, and an independent registered public accounting firm in California specializing in manufacturing, asset management, audit, tax planning and compliance, and non-profit consulting. In addition, Mr. Flores has been a faculty member of California State Polytechnic University at Pomona (retired emeritus), University of La Verne, and Rio Hondo Community College. Mr. Flores has also participated in numerous non-profit community service organizations serving both as an active member and a member of the board of directors. Mr. Flores has both graduate and undergraduate degrees in accounting, finance, and marketing. Mr. Flores is currently a member of American Institute of Certified Public Accountants, California Society of Certified Public Accountants, and Association of Latino Professionals in Finance and Accounting.

*Scott Smith, Director*

Scott Smith was appointed as a director of our company on November 30, 2005. Mr. Smith is president and co-owner of Alpha Cargo Technology, LLC, an innovative security seal manufacturer and distributor known for patented tamper-proof cargo seal designs. Mr. Smith has twenty years of professional experience in the import/export, sales and marketing of consumer, industrial and security products. Before Alpha Cargo Technology, he was Executive Vice President of TydenBrammall, a top cargo seal producer. His credentials and extensive participation in trade organizations have led to his current position as Chairman of the International Cargo Security Council (ICSC), a leading 1,200-member cargo security association. He is a member of the International Standards Organization (ISO) container working group and part of the Department of Treasury's Commercial Operations Advisory Committee (COAC) technology subcommittee. Recognized as an expert on cargo seals, security standards and global alliances, Mr. Smith is sought by government agencies and major firms in the security industry for special consultations. He has a Master of Business Administration from the American Graduate School of

International Management Thunderbird and a Business Administration baccalaureate from the University of Wisconsin.

*Matthew Swee Kong Yoon, Chief Financial Officer and Treasurer*

Matthew Yoon was appointed as our chief financial officer and treasurer effective May 1, 2004. Mr. Yoon is a Fellow of the Association of Chartered Certified Accountants (U.K.), and holds a certificate in advanced management studies from Brunel University, (U.K.). Mr. Yoon is a member of the Certified General Accountants Association of British Columbia and Canada. From 1983 to 1985, Mr. Yoon was employed as an auditor by KPMG in Singapore. Mr. Yoon sought a transfer to KPMG in Malaysia where he worked from 1985 to 1990 as auditor and financial consultant. In 1990, Mr. Yoon joined Bumiputra Merchant Bank, a merchant bank owned by a major Malaysian bank. During his tenure there, he headed the corporate finance department that provided advisory services in the areas of initial public offerings, fund raising through private placements, rights issues, project advisory services and privatization. Mr. Yoon held the position of acting chief executive officer of Bumiputra Merchant Bank in 2000. Following the merger of Bumiputra Merchant Bank with another Malaysian merchant bank to form Alliance Merchant Bank in 2000, Mr. Yoon was appointed co-Head of the enlarged corporate finance department of the merged bank and served in that capacity from 2001 to 2002. In 2003, Mr. Yoon has acted as a consultant to a fuel cell company, and worked as a cost accountant for a manufacturing company in North Vancouver, British Columbia.

*Robin Heeter Wald, Chief Technical Officer*

Heeter Wald was appointed as the chief technical officer of our subsidiary effective September 1, 2003. Mr. Wald has worked in executive engineering management, software testing and design, and radio frequency system implementation for the past eight years. Mr. Wald holds a Bachelor of Science Degree (Electrical Engineering Technologies) from DeVry Institute of Technology, Phoenix, Arizona, and a Master of Business Administration degree from the University of San Diego, California. Mr. Wald worked for Qualcomm Inc. in San Diego from 1996 to 2003, in the following capacities: Senior Engineer (Software Quality Assurance) and Senior Business Development Engineer (Wireless Infrastructure). His experience includes work with wireless voice and data systems, both terrestrial and satellite based.

*Denis Beudoin - Director of Engineering*

Denis Beudoin was appointed as our director of engineering effective October 1, 2004. Mr. Beudoin has over 24 years of product development and engineering management experience with a number of large and small companies, which include Motorola (Wireless Data Group), Sierra Wireless (where he managed the development team for the first CDPD AirCard product in 1995), EXI Wireless (Director of Engineering and Manufacturing for RFID products) and Epson R&D (Director of IC Design). He graduated in 1980 from the University of Ottawa with a Bachelor of Applied Science (Electrical Engineering) and currently has his name on seven patents.

*Family Relationships*

There are no family relationships among our directors or officers.

*Involvement in Certain Legal Proceedings*

Our directors, executive officers and control persons have not been involved in any of the following events during the past five years:

- any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction in a criminal proceeding or being subject to a pending criminal proceeding (excluding traffic violations and other minor offenses);

- being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities or banking activities; or

- being found by a court of competent jurisdiction (in a civil action), the Commission or the Commodity Futures Trading Commission to have violated a federal or state securities or commodities law, and the judgment has not been reversed, suspended, or vacated.

#### SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, as of March 1, 2006, certain information with respect to the beneficial ownership of our common stock by each stockholder known by us to be the beneficial owner of more than 5% of our common stock and by each of our current directors and executive officers. Each person has sole voting and investment power with respect to the shares of common stock, except as otherwise indicated. Beneficial ownership consists of a direct interest in the shares of common stock, except as otherwise indicated.

<b>Name and Address of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Percentage of Class<sup>(1)</sup></b>
John Cockburn 3640 River Road Richmond, BC V7C 5M5	4,912,424 <sup>(2)</sup>	19.3%
Brett Millar 310 E. McCoy, Unit 7A Santa Maria, CA 93455	100,000 <sup>(3)</sup>	*%
Steven Flores 1501 E. Orangethorpe Avenue Suite 100 Fullerton, CA 92831	100,000 <sup>(4)</sup>	*%
Scott Smith 10421 Shelter Grove Eden Prairie, Minnesota 44347	50,004 <sup>(5)</sup>	*%
Matthew Yoon 101E-3081 Glen Drive Coquitlam, BC V3B 2P8	237,486 <sup>(6)</sup>	*%
Directors and Officers (as a group)	5,399,914 <sup>(7)</sup>	20.9%

\* Less than 1% of the issued and outstanding shares of our company as of March 1, 2006.

<sup>(1)</sup> Based on 24,655,288 shares issued and outstanding as of March 1, 2006 and, as to a specific person, shares issuable pursuant to the exercise of share purchase warrants exercisable within 60 days.

<sup>(2)</sup> Includes 3,000,000 shares of common stock held by Rosedene Investments Limited and 5,000 shares of common stock held by the John Cockburn Family Trust, all of which are beneficially owned by John Cockburn. It also includes 145,000 shares owned by Jan Roscovich, Mr. Cockburn's wife. Also includes 481,236 options (exercisable within 60 days) of the 825,000 options that were granted on September 2, 2004. The options vest over 36 months beginning on September 5, 2004, with a total of 22,916 options vesting each month for the first 35 months and 22,940 options vesting in month 36. Further includes: (i) 174,993 options (exercisable within 60 days) of the 300,000 options that were granted to Jan Roscovich on September 2, 2004. The options vest over 36 months beginning September 5, 2004, with a total of 8,333 options vesting each month for the first 35 months and 8,345 options vesting in month 36; and (ii) 99,999 options (exercisable within 60 days) of the 400,000





options that were granted to Jan Roscovich on December 1, 2005. The options vest with 44,444 vesting on December 1, 2005 and 355,556 options vesting over 32 months beginning on January 1, 2006 with a total of 11,111 options vesting each month for the first 31 months and 11,115 in month 32.

- (3) Includes 50,000 options with an exercise price of \$2.42 per share and 50,000 options with an exercise price of \$1.60 per share.
- (4) Includes 100,000 options with an exercise price of \$1.60 per share.
- (5) Includes 50,004 options (exercisable within 60 days) of the 100,000 options that were granted on December 6, 2005. The options vest over 12 months beginning on December 6, 2005, with a total of 8,334 vesting each month for the first 11 months and 8,326 vesting in month 12. The options have an exercise price of \$1.30 per share.
- (6) Includes 87,486 options (exercisable within 60 days) of the 150,000 options that were granted on September 2, 2004. The options vest over 36 months beginning on September 5, 2004, with a total of 4,166 options vesting each month for the first 35 months and 4,190 options vesting in month 36. Also includes 150,000 options with an exercise price of \$2.20 per share.
- (7) Includes 1,268,718 options exercisable within 60 days.

#### *Changes in Control*

We are unaware of any contract or other arrangement the operation of which may at a subsequent date result in a change of control of our company.

#### DESCRIPTION OF COMMON STOCK

We are authorized to issue 100,000,000 common shares with a par value of \$0.001. As at March 1, 2006, we had 24,655,288 common shares issued and outstanding. Upon liquidation, dissolution or winding up of the corporation, the holders of common stock are entitled to share ratably in all net assets available for distribution to stockholders after payment to creditors. The common stock is not convertible or redeemable and has no preemptive, subscription or conversion rights. Each outstanding share of common stock is entitled to one vote on all matters submitted to a vote of stockholders. There are no cumulative voting rights.

The holders of outstanding shares of common stock are entitled to receive dividends out of assets legally available therefore at such times and in such amounts as our board of directors may from time to time determine. Holders of common stock will share equally on a per share basis in any dividend declared by the board of directors. We have not paid any dividends on our common stock and do not anticipate paying any cash dividends on such stock in the foreseeable future.

#### PENNY STOCK RULES

The Securities and Exchange Commission has adopted regulations which generally define penny stock to be any equity security that has a market price (as defined) less than \$5.00 per share or an exercise price of less than \$5.00 per share, subject to certain exceptions. Our securities are covered by the penny stock rules, which impose additional sales practice requirements on broker-dealers who sell to persons other than established customers and accredited investors. The term accredited investor refers generally to institutions with assets in excess of \$5,000,000 or individuals with a net worth in excess of \$1,000,000 or annual income exceeding \$200,000 or \$300,000 jointly with their spouse. The penny stock rules require a broker-dealer, prior to a transaction in a penny stock not otherwise exempt from the rules, to deliver a standardized risk disclosure document in a form prepared by the SEC which provides information about penny stocks and the nature and level of risks in the penny stock market. The broker-dealer also must provide the customer with current bid and offer quotations for the penny stock, the compensation of the broker-dealer and its salesperson in the transaction and monthly account statements showing

the market value of each penny stock held in the customer's account. The bid and offer quotations, and the broker-dealer and salesperson compensation information, must be given to the customer orally or in writing prior to effecting the transaction and must be given to the customer in writing before or with the customer's confirmation. In addition, the penny stock rules require that prior to a transaction in a penny stock not otherwise exempt from these rules, the broker-dealer must make a special written determination that the penny stock is a suitable investment for the purchaser and receive the purchaser's written agreement to the transaction. These disclosure requirements may have the effect of reducing the level of trading activity in the secondary market for the stock that is subject to these penny stock rules. Consequently, these penny stock rules may affect the ability of broker-dealers to trade our securities. We believe that the penny stock rules discourage investor interest in and limit the marketability of our common stock.

#### INTEREST OF NAMED EXPERTS AND COUNSEL

No expert or counsel named in this prospectus as having prepared or certified any part of this prospectus or having given an opinion upon the validity of the securities being registered or upon other legal matters in connection with the registration or offering of the common stock was employed on a contingency basis or had, or is to receive, in connection with the offering, a substantial interest, directly or indirectly, in the registrant or any of its parents or subsidiaries. Nor was any such person connected with the registrant or any of its parents, subsidiaries as a promoter, managing or principal underwriter, voting trustee, director, officer or employee.

#### EXPERTS

The audited consolidated financial statements of our company for the fiscal years ended August 31, 2005 and 2004 included in this registration statement have been audited by BDO Dunwoody LLP, independent registered public accounting firm, to the extent and for the period set forth in their report (which contains an explanatory paragraph regarding the company's ability to continue as a going concern) appearing elsewhere in the registration statement, and are included in reliance upon such report given upon the authority of said firm as experts in auditing and accounting.

#### DISCLOSURE OF SECURITIES AND EXCHANGE COMMISSION POSITION OF

#### INDEMNIFICATION FOR SECURITIES ACT LIABILITIES

Nevada corporation law provides that a corporation may indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, except an action by or in the right of the corporation, by reason of the fact that he is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with the action, suit or proceeding if he acted in good faith and in a manner which he reasonably believed to be in or not opposed to the best interests of the corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful.

Nevada corporation law also provides that to the extent that a director, officer, employee or agent of a corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding, or in defense of any claim, issue or matter therein, the corporation shall indemnify him against expenses, including attorneys' fees, actually and reasonably incurred by him in connection with the defense.

Our Articles of Incorporation authorize our company to indemnify our directors and officers to the fullest extent permitted under Nevada law.

Our Bylaws require us to indemnify any present and former directors, officers, employees, agents, partners, trustees and each person who serves in any such capacities at our request against all costs, expenses, judgments, penalties, fines, liabilities and all amounts paid in settlement reasonably incurred by such persons in connection with any threatened, pending or completed action, action, suit or proceeding brought against such person by reason of the fact that such person was a director, officer, employee, agent, partner or trustees of our company. We will only

