FORM 10QSB

Optional form for quarterly and transition reports of small business issuers under section 13 or 15(d)

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FILER

IMAGIS TECHNOLOGIES INC

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Business Address
1300 1075 WEST GEORGIA STREET
VANCOUVER BC V6E 3C9 A1 00000
6046842449

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-QSB

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2002

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File Number: 000-30090

IMAGIS TECHNOLOGIES INC.

(Exact name of small business issuer as specified in its charter)

British Columbia, Canada	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1300 - 1075 West Georgia Street
Vancouver, British Columbia
V6E 3C9

(Address of principal executive offices)

(604) 684-2449

(Issuer's telephone number)

As of May 7, 2002, 17,578,676 Common Shares were issued and outstanding.

Transitional Small Business Disclosure Format (Check one): Yes [ ] No [X]

IMAGIS TECHNOLOGIES INC.

FORM 10-QSB

For the quarterly period ended March 31, 2002

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

The following unaudited financial statements for the three month period ended March 31, 2002 are included in response to Item 1 and have been compiled by management.

The financial statements should be read in conjunction with the Management's Discussion and Analysis and other financial information included elsewhere in this Form 10-QSB.

IMAGIS TECHNOLOGIES INC.
BALANCE SHEETS
AS AT MARCH 31, 2002 AND DECEMBER 31, 2001
(expressed in Canadian dollars)

	Mar. 31, 2002 (Unaudited)	Dec. 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,306	$ 200,659
Short-term investments	1,691,265	2,560,000

Accounts receivable		1,173,827		465,024
		2,920,398		3,225,683
Equipment, net		82,856		51,838
	$	3,003,254	$	3,277,521

LIABILITIES AND SHAREHOLDERS' DEFICIENCY

Current liabilities:				
Accounts payable and accrued liabilities	$	545,085	$	444,871
Deferred revenue		76,676		59,184
		621,761		504,055
Shareholders' equity (deficiency):				
Share capital (note 4)		11,940,289		10,142,041
Special warrants		1,626,311		2,822,061
Contributed surplus		145,031		-
Deficit		(11,330,138)		(10,190,636)
		2,381,493		2,773,466
	$	3,003,254	$	3,277,521

See accompanying notes to financial statements.

IMAGIS TECHNOLOGIES INC.
STATEMENTS OF OPERATIONS AND DEFICIT

FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)
(Unaudited - Prepared by Management)

	Three months ended March 31,	
	2002	**2001**
Revenues:		
Software sales	$ 985,954	$ 193,045
Support and services	59,830	114,696
Other	16,081	46,095
	1,061,865	353,836
Expenses:		
Cost of materials	10,289	33,848
Sales and marketing	557,748	260,422
Technical services	239,397	175,018
Technology development	369,706	273,643
Administration, including stock-based compensation of $145,031 (2001 - nil)	997,178	221,985
Interest	(4,827)	32,032
Amortization	31,876	4,776
	2,201,367	1,001,724
Loss for the period	(1,139,502)	(647,888)

Deficit, beginning of period	(10,190,636)	(7,169,932)
Deficit, end of period	$ (11,330,138)	$ (7,817,820)
Loss per share	$ (0.07)	$ (0.05)
Weighted average number of shares outstanding	16,708,795	12,986,991

See accompanying notes to financial statements.

IMAGIS TECHNOLOGIES INC.
STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED MARCH 31, 2002 AND 2001
(expressed in Canadian dollars)
(Unaudited - Prepared by Management)

	Three months ended March 31,	
	2002	**2001**
Cash provided by (used for):		
Net loss	$ (1,139,502)	$ (647,888)
Items not involving the use of cash:		
Amortization	31,876	4,776
Stock-based compensation	145,031	
Accrued interest	-	3,559
Common shares issued for services	78,750	28,473

Changes in non-cash operating working capital:		
Accounts receivable	(708,803)	312,254
Accounts payable and accrued liabilities	100,214	(173,824)
Deferred revenue	17,492	57,306
	(1,474,942)	(415,344)
Cash flows from investing activities:		
Purchase of equipment	(62,894)	(1,636)
Short-term investments	868,735	-
	805,841	(1,636)
Cash flows from financing activities:		
Issuance of common shares for cash	523,748	70,333
Repayment of advances payable	-	48,500
Repayment of obligation under capital lease	-	(1,670)
Loan from related parties	-	271,004
	523,748	388,167
Increase (decrease) in cash for the period	(145,353)	(28,813)
Cash and cash equivalents, beginning of period	200,659	59,497
Cash and cash equivalents, end of period	$ 55,306	$ 30,684

Supplementary information and disclosure of non-cash financing and investing activities:

Interest paid	$	3,592	$	1,459
Non-cash transactions not reported above:				
Issuance of common shares on conversion of special warrants		1,195,750		-
Issuance of common shares for services rendered		78,750		29,000

See accompanying notes to financial statements

IMAGIS TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)
(Unaudited - Prepared by Management)

1. Operations:

Imagis Technologies Inc. (the "Company") was incorporated under the Company Act (British Columbia) on March 23, 1998. The Company operates in a single segment, being the development and sale of software applications and advanced biometric facial recognition software solutions. The Company's assets are based in Canada. In the three month period ended March 31, 2002, one customer represented approximately 62% of total revenues (December 31, 2001 - two customers represented approximately 40% and 20% of total revenues).

These financial statements have been prepared on a going concern basis, which includes the assumption that the Company will be able to realize its assets and settle its liabilities in the normal course of business. For the three-month period ended March 31, 2002, the Company has incurred a loss from operations of $1,139,502 and a deficiency in operating cash flow of $1,474,942. In addition, the Company has incurred significant operating losses and net utilization of cash in operations in all prior periods. Accordingly, the Company will require continued financial support from its shareholders and creditors until it is able to generate sufficient cash flow from operations on a sustained basis. Failure to obtain ongoing support of its shareholders and creditors may make the going concern basis of accounting inappropriate, in which case the Company's assets and liabilities would need to be recognized at their liquidation values. These financial statements do not include any adjustment due to this going concern uncertainty.

2. Significant accounting policies:

The Company prepares its financial statements in accordance with generally accepted accounting principles in Canada and, except as set out in Note 7, also comply, in all material respects, with accounting principles generally accepted in the United States. The financial statements reflect the following significant accounting policies:

(a) Cash equivalents:

The Company considers all highly liquid investments with a term to maturity of three months or less when purchased to be cash equivalents. Investments having a term in excess of three months but less than one year are classified as short-term investments.

(b) Equipment:

Equipment is recorded at cost and is amortized over its estimated useful life on a straight-line basis at the following annual rates:

Asset	Rate
Computer hardware	30%
Furniture and fixtures	20%

2. Significant accounting policies, continued:

(c) Revenue recognition:

(i) Software sales revenue:

The Company recognizes revenue consistent with Statement of Position 97-2, "*Software Revenue Recognition*". In accordance with this Statement, revenue is recognized, except as noted below, when all of the following criteria are met; persuasive evidence of a contractual arrangement exists, title has passed, delivery and customer acceptance has occurred, the sales price is fixed or determinable and collection is reasonably assured.

When a software product requires significant production, modification or customization, the Company generally accounts for the arrangement using the percentage-of-completion method of contract accounting. Progress to completion is measured by the proportion that activities completed are to the activities required under each arrangement. When the current estimate on a contract indicates a loss, a provision for the entire loss on the contract is made.

When software is sold under contractual arrangements that includes post contract customer support ("PCS"), the elements are accounted for separately if vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements. VSOE is identified by reference to renewal arrangements for similar levels of support covering comparable periods. If such evidence does not exist, revenue on the completed arrangement is deferred until the earlier of (a) VSOE being established or (b) all of the undelivered elements are delivered or performed, with the following exceptions: if the only undelivered element is PCS, the entire fee is recognized ratably over the PCS period, and if the only undelivered element is service, the entire fee is recognized as the services are performed.

The Company provides for estimated returns and warranty costs, which to date have been nominal, on recognition of revenue.

(ii) Support and services revenue:

Contract support and services revenue is deferred and is amortized to revenue ratably over the period that the support and services are provided.

(d) Use of estimates:

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported or disclosed in the financial statements. Actual amounts may differ from these estimates.

(e) Foreign currency:

Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date. Revenues and expenses are translated using rates in effect at the time of the transactions. Foreign exchange gains and losses are included in income.

(f) Income taxes:

(expressed in Canadian dollars)

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. To the extent that it is not considered to be more likely than not that a deferred tax asset will be realized, a valuation allowance is provided.

2. Significant accounting policies (continued):

(g) Stock-based compensation:

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recorded over the period of related employee service, usually the vesting period of the equity instrument awarded. Alternatively, the new recommendations permit the measurement of compensation expense for stock option grants to employees and directors that are not direct awards of stock, stock appreciation rights or otherwise call for settlement in cash or other assets by an alternative method and to provide pro forma disclosure of the financial results using the fair value method. The Company has elected to follow an alternative method and continue with the former accounting policy of recognizing no compensation expense when stock options are granted to employees because the Company grants stock options with an exercise price based on the market price at the date of the grant. The Company recognizes compensation expense for consultants based on the fair value of the equity instruments issued.

Had compensation expense for employees been determined based on the fair value method, the Company's net loss and net loss per share for the three months ended March 31, 2002, would have been adjusted to the pro forma amounts indicated below:

	Three months ended March 31, 2002
Net loss - as reported	$(1,139,502)
Net loss - pro forma	(1,206,292)
Net loss per share - as reported	$ (0.07)
Net loss per share - pro forma	(0.07)

The pro forma amounts exclude the effect of stock options granted prior to January 1, 2002. The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: risk-free interest rate of 5%, dividend yield of 0%, expected life of 5 years, and volatility of 85%.

The weighted average fair value of employee stock options granted during the three months ended March 31, 2002 was $2.35 per share.

(h) Loss per share:

(expressed in Canadian dollars)

Loss per share is calculated using the weighted average number of shares outstanding during the reporting period. This average includes outstanding common shares issued in a reporting period from their date of issuance. Diluted per share amounts are calculated by the treasury stock method whereby the assumed proceeds of dilutive exercisable instruments are applied to repurchase common shares at the average market price for the period. The resulting net issuance is included in the weighted average number for purposes of the diluted per share calculation.

2. Significant accounting policies (continued):

(i) Unaudited interim financial information:

The information reported herein as at March 31, 2002 and for the three month periods ended March 31, 2002 and 2001 is unaudited. However, such financial information reflects all adjustments (consisting solely of normal recurring adjustments) necessary for a fair presentation of the results for the periods presented. The unaudited interim financial statements are prepared using accounting policies consistent with and should be read in conjunction with the Company's financial statements as at and for the year ended December 31, 2001 which are included in the Company's 2001 Annual Report on Form 10-KSB. Certain comparative figures have been reclassified to conform with presentation adopted in the current reporting period. Results for the interim periods ended March 31, 2002 are not necessarily indicative of what the results will be for the complete 2002 fiscal year.

3. Share capital:

(a) Authorized:

100,000,000 common shares without par value

(b) Issued:

	Number of shares	Amount
Balance, December 31, 2000	12,965,965	6,329,155
Issued during the period for cash:		
On private placement	1,730,332	1,998,650
Options exercised	295,834	395,834
Warrants exercised	1,407,000	1,523,700
Issued for services related to private placement	20,000	29,000
Share issuance costs	--	(134,298)
Balance, December 31, 2001	16,419,131 $	10,142,041

Issued during the period for cash:		
Options exercised	133,165	134,415
Warrants exercised	184,135	389,333
Issued on conversion of special warrants	551,037	1,195,750
Issued as bonus for consulting agreement	37,500	78,750
Balance, March 31, 2002	17,324,968 $	11,940,289

(c) Escrowed shares:

As at December 31, 2001, 266,669 common shares were being held in escrow. These common shares were released from escrow on February 23, 2002.

IMAGIS TECHNOLOGIES INC.
NOTES TO FINANCIAL STATEMENTS
(expressed in Canadian dollars)
(Unaudited - Prepared by Management)

3. Share capital, continued:

(d) Special warrants:

(i) On November 9, 2001, 1,427,682 Special Warrants were sold at a price of $2.17 per Special Warrant, each of which entitles the holder, upon exercise and without payment of further consideration, to acquire one common share of the Company and one-half of one common share purchase warrant (the "Warrants") of the Company. Each whole Warrant will entitle the holder to purchase one common share of the Company at a price of $2.55 for a period of one year from the date the underlying shares are qualified for resale.

The securities issued pursuant to the brokered private placement and all underlying securities were subject to resale restrictions that will expired on March 9, 2002.

(ii) Earnings per share calculations do not include the underlying common shares to outstanding Special Warrants.

(e) Warrants:

December 31, 2001	Granted	Exercised	Expired	March 31, 2002	Exercise price	Expiry date
266,666	--	--	--	266,666	$1.25	June 25, 2002
133,334	--	--	--	133,334	$1.25	February 23, 2003

(expressed in Canadian dollars)

50,000	--	--	--	50,000	$4.00	June 16, 2002
274,000	--	(22,000)	--	252,000	$1.10	Various to May 6, 2003
114,666	--	--	--	114,666	$2.55	November 9, 2002
713,840	--	(35,000)	--	678,840	$2.55	Subject to qualification
--	142,768	(127,135)	--	15,633	$2.17	November 9, 2002
--	50,000	--	--	50,000	$2.20	June 18, 2004
1,552,506	192,768	(184,135)	--	1,561,139		

(f) Options:

December 31, 2001	**Granted**	**Exercised**	**Expired**	**March 31, 2002**	**Exercise price**	**Expiry date**
230,000	--	--	--	230,000	$0.30	July 6, 2003
1,183,664	--	(130,665)	--	1,052,999	$1.00	Various to August 30, 2006
540,000	440,000	(2,500)	--	977,500	$1.50 to $2.90	Various to December 30, 2005
1,953,664	1,130,000	(28,000)	--	2,260,499		

5. Related party transactions not disclosed elsewhere are as follows:

(a) included in accounts payable and accrued liabilities is $44,834 which is due to directors, officers and companies with a director and/or officer in common.

(b) included in administration expense is $91,963 for payments made to companies with a director in common for services rendered to the Company.

(expressed in Canadian dollars)

6. Subsequent events:

(a) On April 2, 2002, 4,500 warrants were exercised at a price of $1.10 per warrant for total proceeds to the Company of $4,950.

(b) On April 2, 2002, 50,000 special warrants were converted to common shares at a deemed price of $2.17 per special warrant for total deemed proceeds to the Company of $108,500.

(c) On April 5, 2002, 160,208 special warrants were converted to common shares at a deemed price of $2.17 per special warrant for total deemed proceeds to the Company of $347,651.

(d) On April 8, 2002, 5,000 warrants were exercised at a price of $2.55 per warrant for total proceeds to the Company of $12,750.

(e) On April 12, 2002, 3,500 warrants were exercised at a price of $1.10 per warrant for total proceeds to the Company of $3,850.

(f) On April 17, 2002, 5,000 warrants were exercised at a price of $2.55 per warrant for total proceeds to the Company of $12,750.

(g) On April 23, 2002, 22,500 warrants were exercised at a price of $2.55 per warrant for total proceeds to the Company of $57,375.

(h) On April 26, 2002, 3,000 warrants were exercised at a price of $1.10 per warrant for total proceeds to the Company of $3,300.

7. United States generally accepted accounting principles:

These financial statements have been prepared in accordance with generally accepted accounting principles in Canada ("Canadian GAAP") which differ in certain respects with accounting principles generally accepted in the United States ("U.S. GAAP"). See note 12 of the Company's 2001 Annual Report on Form 10-KSB for a qualitative description of material differences between Canadian and U.S. GAAP. The effect of these accounting differences on deficit, loss and loss per share under United States accounting principles are as follows:

		March 31, 2002		**March 31, 2001**
Deficit, Canadian GAAP	$	(11,236,721)	$	(10,190,636)
Cumulative stock based compensation		(1,538,636)		(1,054,612)
Beneficial conversion options		(208,200)		(208,200)
Warrants issued for services		(722,000)		(722,000)
Deficit, U.S. GAAP	$	(13,705,557)	$	(12,175,448)

7. United States generally accepted accounting principles:

Three months ended
March 31,

		2002		2001
Loss for the period, Canadian GAAP	$	(1,046,085)	$	(647,888)
Stock-based compensation		(484,024)		(32,550)
Beneficial conversion options		--		--
Warrants issued for services		--		--
Loss for the period, U.S. GAAP		(1,530,109)		(680,438)
Loss per share, U.S. GAAP		(0.08)		(0.05)

8. Recent accounting pronouncements:

During 2001, the Financial Accounting Standards Board issued four new pronouncements:

Statement 141, *Business Combinations*, requires the purchase method of accounting for all business combinations and applies to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001.

Statement 142, *Goodwill and Other Intangible Assets*, requires that goodwill as well as other indefinite life intangible assets be tested annually for impairment and is effective for fiscal years beginning after December 15, 2001.

Statement 143, *Accounting for Asset Retirement Obligations*, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset and is effective for fiscal years beginning after June 15, 2001.

Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides that long-lived assets to be disposed of by sale be measured at the lower of carrying mount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. Statement 144 is effective for fiscal years beginning after December 15, 2001.

Currently, the Company does not believe that the impact of these accounting pronouncements would be material to the financial results.

Item 2. Management's Discussion and Analysis or Plan of Operations

Forward-Looking Statements:

Statements in this Quarterly Report on Form 10-QSB, including, but not limited to, those concerning Imagis Technologies Inc.'s (the "Company") expectations of results of the Company's operations in future periods, the amount and timing of revenues and earnings in future periods, future sales, gross profits, sales and marketing expenses, technical services expenses, technology development expenses, administration expenses, product introductions and cash requirements include certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. As such, the Company's actual results may vary materially from expectations as a result of certain factors including, but not limited to, the failure of the market for the Company's products to grow as anticipated; the success of certain strategic alliances among the Company and certain third parties; product pricing or other initiatives of the Company's competitors; the possibility that the Company's other customers defer purchasing decisions due to economic or other conditions or will purchase products offered by the Company's competitors; product development, product pricing or other initiatives of the Company's competitors; variations in the level of orders which can be affected by general economic conditions and in the markets served by the Company's customers; international economic and political climates; difficulties or delays in the functionality or performance of the Company's products; the Company's timing of future product releases or improvements; the Company's failure to respond adequately to either changes in technology or customer preferences; changes in pricing; the Company's ability to manage growth; risk of nonpayment of accounts receivable; changes in budgeted costs and the factors listed in Exhibit 99.1 to this Quarterly Report, which is herein incorporated by reference.

In some cases, you can identify forward-looking statements by the Company's use of words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential" or "continue" or the negative or other variations of these words, or other comparable words or phrases.

Although the Company believes the expectations reflected in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements or other future events. The Company is under no duty to update any of our forward-looking statements after the date of this filing. You should not place undue reliance on forward-looking statements.

Unless otherwise indicated, all references herein are to Canadian Dollars.

About Imagis

Imagis Technologies Inc. is a developer and marketer of software applications and advanced biometric facial recognition software solutions both as products and as a Software Development Kit. These applications provide a range of security solutions in various industry sectors including airports, law enforcement, customs, immigration and other government agencies, and gaming. The Company currently has well over a hundred installations, including Toronto's Pearson International Airport, the world's 16th busiest airport. The Company markets its products through a network of business partners located in North America, Asia, Europe and Latin America, and has installations in the US, Canada, Mexico and the UK.

ID-2000 - Image Detection and Biometric Facial Recognition

This software technology has enabled the Company to enter the biometric market.

ID-2000 is a facial recognition software system designed for the law enforcement, airport security, gaming and security industries that captures an offender's image, typically via a video camera, and then creates a biometric code that can be compared to other encoded images in a database. ID-2000 allows an individual in a database to be identified in seconds, using only an image or photograph as the search criterion. Matching records will be displayed as a list, together with their associated thumbnail images. From this, any record can be selected and full details, together with a full size image, will be displayed. Extensive linkages enable the database to be mined to display details, such as aliases, known associates and vehicles, as well as images of other distinguishing features, such as marks, scars and tattoos. Where appropriate, details such as previous crimes or gang memberships can also be displayed. ID-2000 also works with Casino-ID and Envisage for use in the gaming and security sectors.

ID-2000 is also available as a Software Development Kit, or SDK, which is designed to enable developers at the Company's business partners to integrate its facial recognition capabilities into their own applications.

In addition, the Company has adapted its facial recognition software to include the identification of non-facial objects in background imagery and personally identifiable markings, such as tattoos. The biometric solution purchased by the UK's National Crime Squad will be used to crack down on international online child pornography. The ability of law enforcement agencies to identify background imagery, as well as victims and perpetrators, is an important factor in preparing for and solving missing persons investigations.

Secure-ID (Airport Security)

Secure-ID is designed to use ID-2000 to scan the faces of travellers entering or leaving an airport, isolate individual faces, encode them and match them against a database of serious criminals or known terrorists. A variation on the system is already in use at Toronto's Pearson International Airport, where the Royal Canadian Mounted Police have successfully used it to identify wanted individuals trying to enter Canada.

Secure-ID uses standard surveillance cameras and requires no manual intervention. While it is possible to identify individuals in a crowd, cameras should be positioned where they can obtain clear images, such as the check-in desk, metal detector, gate and so on. Where there is a possible match, a monitor in the security office will display the image of the passenger, together with the image of the possible match in the database. The security officer at the screen will visually compare the two images and, if they match, take appropriate action.

CABS - Computerized Arrest & Booking System

CABS is an integrated information and imaging system developed for the Royal Canadian Mounted Police ("RCMP") and other law enforcement agencies. CABS currently has separate modules for offenders, non-offenders, staff and evidence. The offender module automates booking activities and reports, the production of mugshots and the generation of line-ups. Pictures of criminal suspects, as well as their marks, scars, tattoos and fingerprints, are all captured in the offender module of CABS. The non-offender module provides an electronic database of persons, such as teachers and day-care providers, who are required to be registered with the police. The staff module provides for the creation and management of staff identification. The evidence module provides for electronic management of photographs of evidence obtained in connection with a criminal arrest.

The CABS system is designed to collect the same information that would be recorded manually during a traditional booking situation and to store all of the information and photo images that are required in connection with arresting and prisoner reports. Compared to manual bookings, CABS offers the following advantages:

- captures more information than manual booking systems and allows the information to be retrieved quickly from multiple locations;
- allows offender information to be used for multiple inquiries and report generating purposes;
- generates automated line-ups based on user-specified criteria;
- provides a variety of required reports and other documents with the offender's photograph;
- allows the collection and retrieval of photographs of the offender, including identifying physical marks such as tattoos, scars and other markings;
- creates a database of offender information for access in the case of subsequent arrests or for generation of suspect lists;
- can be integrated with livescan electronic fingerprinting systems and with other computer software systems; and
- integrates with key dispatch systems, digital composite drawing programs and digital fingerprint systems to provide a complete police information management system.

CABS advanced data sharing capabilities allow different authorities to access decentralised information. The Company has recently implemented its first regional data sharing system. This allows RCMP detachments to share live information entered by their individual detachments. The major advantage of this data sharing system is that it allows one detachment to search a larger database containing offender information when booking a suspect, increasing the probability that the booking officer will discover prior arrests for the same individual. The RCMP does not retain any ownership interest or residual rights over the CABS system.

Overview

Revenue for software and services has historically accounted for a substantial portion of the Company's revenue. Typically, the Company enters into a fixed price contract with a customer for the licensing of selected software products and the provision of specific services. The Company generally recognizes total revenue for software and services associated with a contract using percentage of completion method based on the total costs incurred over the total estimated costs to complete the contract.

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. As a result, any substantial delay in the Company's completion of a contract, the inability of the Company to obtain new contracts or the cancellation of an existing contract by a customer could have a material adverse effect on the Company's results of operations. The loss of certain contracts could have a material adverse effect on the Company's business, financial condition, operating results and cash flows. As a result of these and other factors, the Company's results of operations have fluctuated in the past and may continue to fluctuate from period-to-period.

Recent events have increased awareness of and interest in products that have law enforcement or other security applications. There can be no assurance, however, that such trends will continue or will result in increased sales of the Company's products and services.

Comparison of results of operations for the three months ended March 31, 2002 and 2001:

Revenues

The Company's total revenues increased 200% to $1,061,865 for the first quarter ended March 31, 2002 over the comparable prior year first quarter level of $353,836. The higher revenues were directly attributable to higher software sales revenues while other revenues declined in the quarter from the prior year amounts.

Sales of the Company's software products rose 410% to $985,954 in the first quarter of this year as compared to $193,045 in 2001. The large gain in software sales revenues this year arose primarily from the inclusion of approximately 60% of the revenues earned to March 31, 2002, through the Company's U.K. business partner, Serco PLC, as a result of a significant order.

Support and services revenues for the first quarter of 2002, at $59,830, were 48% lower than those in the comparable quarter in 2001 of $114,696. The lower 2002 level masks a 14% gain in annual support contract revenues this year over the 2001 first quarter amount. The overall decline resulted from reduced revenues derived from contract services this year, and is solely attributable to the completion of a single special contract that the Company commenced in 2000 directly for BCIT, rather than through a partner, which concluded in mid-2001. As stated last year, the Company is not seeking such contract work but intends to remain focused on both development and more profitable sales of its software products.

Other revenues were $16,081 for the first quarter of 2002, down from $46,095 earned in the first quarter of 2001. These revenues are earned from the sale of components, which are provided in conjunction with the installation or ongoing support of the Company's products, and the level of sales varies from period to period.

Operating costs

Operating costs totaled $2,201,367 for the first quarter in 2002, which is 120% higher than the total 2001 first quarter expenditures of $1,001,724. The higher costs over the prior year first quarter resulted from increases in staff in most functions, greater travel for both sales and marketing and technical support, and exceptional corporate costs included in the administration category. Operating costs include cost of materials, sales and marketing, technical Services, technology development, administration, interest and amortization.

Costs of materials and services

The costs of materials and services are incurred in conjunction with the support services that the Company provides to customers. These costs amounted to $10,289 in the first quarter of 2002, down 70% from the costs incurred in the first quarter of 2001 of $33,848.

Sales and marketing

Sales and marketing costs for the first quarter of 2002, at $557,748, were 114% higher than the comparable period in 2001 of $260,422. The increase is attributable to higher costs incurred for new sales and marketing representatives in the US, Europe and the Far East, all engaged on a contract basis in the past few months. There were no sales and marketing representatives on contract prior to this time and hence no comparable 2001 costs. In addition, travel and trade show costs for both staff and representatives rose 195% due to the increase in the number of staff members traveling and overall increase in sales and marketing activity this year over that in the prior year when funds were limited. The Company intends to further increase its sales and marketing team during the year and, therefore, expects that quarterly sales and marketing costs will increase in future quarters as a result.

Technical services

Costs for the technical services group were $239,397 in the first quarter of this year, which is 37% higher than the comparable 2001 first quarter costs of $175,018. The 2002 increase reflects primarily a 51% increase in travel costs in support of the installation in Alameda County, California ("Alameda"), necessitated by the technical aspects of the application. The technical services group generally assists the Company's strategic partners in their installation of its products and also provides clients with any technical support that they may require under annual support contracts. These costs primarily include expenses related to salaries, facilities and travel. While the function costs have increased over the prior year, costs for future quarters are expected to be in line with the first quarter level.

Technology development

Technology development costs for the first quarter ended March 31, 2002 were $369,706, which is 35% higher than the 2001 comparable costs of $273,643. The increase over the prior period reflects a number of additions to staff and higher travel costs incurred during the quarter. The Company added to its development staff throughout 2001 and continues to increase its development group capability. During the quarter, the group finalized for commercial release Version 8 of its ID-2000 facial recognition software, and is providing special support and enhancements for both the Alameda and National Crime Squad applications. Technology development costs are expected to remain at this level throughout the year.

Administration

Administration costs for the first quarter of 2002 were $997,178, which is 349% higher than for the comparable quarter in 2001 of $221,985. Administrative costs include staff salaries and related benefits and travel, professional fees, facility and support costs, shareholder, regulatory and investor relations costs and special financial advisory costs incurred related to the Company's corporate strategies and a special corporate privatization proposal received in the quarter.

While staff costs remained comparable to those of the prior year, generally all other categories were higher due the increased level of corporate activity this year. Facilities costs rose approximately 50%, professional fees rose over 300%, and shareholder, regulatory and investor relations costs rose approximately 200%, the increase primarily reflecting the Company's continued corporate branding efforts worldwide. The Company's financial advisory services costs incurred in the 2002 first quarter aggregated approximately $208,000, including a non-cash component with an imputed value of $78,750, for 37,500 common shares granted as partial compensation to one of the Company's advisors. No comparable financial advisory costs were incurred in the 2001 first quarter. The Company's administrative costs are expected to decline to some degree from the first quarter level since such one-time costs as the non-cash share issuance will not recur. Additionally, the Company incurred non-cash costs in 2002 of $145,031 for stock-based compensation as a result of stock options and warrants that were issued as compensation to non-employees. There were no comparable costs incurred in the 2001 first quarter.

Interest and amortization

Interest was earned this year on the additional funds on deposit amounting to $4,827 whereas in the prior comparable quarter, the Company incurred an expense of $32,032 related to outstanding advances that were liquidated late in 2001. Amortization in the first quarter of 2002 amounted to $31,876 as compared to $4,776 for the first quarter of 2001. The increase in amortization expense reflects recent purchasing of equipment whereas in the past, the Company leased most of its equipment to minimize cash outflows from month to month and software purchases that were expensed in the period.

Net loss for the period

Overall, the Company incurred a net loss for the 2002 first quarter of $1,139,502 or $.07 per share, which is 75% higher than the net loss incurred in the first quarter of 2001 of $647,888 or $.05 per share. While revenues rose 200% this period, significantly higher operating costs incurred in virtually all categories to build the Company aggressively served to offset the revenue gain.

Liquidity and capital resources

In the fourth quarter of 2001, the Company completed a financing to raise approximately $3 million. This served to strengthen the Company's working capital significantly, such that its cash on hand at the beginning of the quarter, including short-term investments, aggregated $2,760,659. During the first quarter, the Company received additional funds as reported in its financing activities from the exercise of both stock options and warrants. In total, 133,165 stock options were exercised

which provided an aggregate of $134,415 in gross proceeds to the Company and 184,135 warrants yielded an aggregate of $389,333 in gross proceeds to the Company.

The Company used funds in the quarter to finance its operating loss of $1,139,502 and working capital changes. The loss, which after adjusting for non-cash items and the working capital changes, primarily an increase in trade accounts receivable of $708,803, negatively impacted cash in total by $1,474,942. The Company also used funds, as reported in its investing activities, to purchase capital equipment amounting to $62,894 in the quarter.

As a result of these negative cash impacts for the adjusted operating loss, the working capital changes and the capital expenditures, management determined that it needed additional funds in the quarter and sold an aggregate of $868,735 of its short-term investments.

In summary, the cash requirements for the adjusted loss, working capital changes and capital expenditures, even after cash infusions from the exercise of warrants and options and the sale of short-term investments, caused a net cash reduction in the first quarter of $145,353, lowering the Company's cash on hand at March 31, 2002 to $55,306. As a result of the sale of short-term investments, the Company's temporary cash deposits declined from the opening level of $2,560,000 to $1,691,265. In total, cash resources of $1,746,571 remained available at March 31, 2002 for future operations.

As indicated at year end, management believes that, based on current projections, the Company will be able to sustain its operations over the near term with its present cash resources and that no further financing for the remainder of the year will be necessary to meet its internal targets for staffing and operations. Thereafter, the Company will be required to seek additional financing to fund its operations. There can be no assurance that such financing will be available on terms favourable to the Company or at all.

On March 6, 2002, the Company announced that it had received a proposal to discuss the privatization of the Company from the Pembridge Group ("Pembridge") of Boston, an investment management group. In order to respond appropriately, the Company formed a special committee of its board of directors and also engaged Raymond James Ltd. to act as its financial adviser to assess this proposal and consider all alternative strategies in light of this development. Currently, the Company is in a 60-90 day evaluation period, granted by Pembridge, under which the Company has an opportunity to evaluate, consider, or complete certain potential strategic alternatives before continuing to engage in discussions regarding Pembridge's proposal to take Imagis private, or to make a potential strategic investment. Management believes that the impact on the Company and the related financial benefits and costs as a result of privatization or an alternate strategy cannot be assessed at this time, but cautions that the above-noted potential for corporate change may result in the need for additional financing or other changes to the Company's corporate structure and equity at any time during the year.

Recent accounting pronouncements

During 2001, the Financial Accounting Standards Board issued four new pronouncements:

Statement 141, *Business Combinations*, requires the purchase method of accounting for all business combinations and applies to all business combinations initiated after June 30, 2001 and to all business combinations accounted for by the purchase method that are completed after June 30, 2001.

Statement 142, *Goodwill and Other Intangible Assets*, requires that goodwill as well as other indefinite life intangible assets be tested annually for impairment and is effective for fiscal years beginning after December 15, 2001.

Statement 143, *Accounting for Asset Retirement Obligations*, requires entities to record the fair value of a liability for an asset retirement obligation in the period in which it is incurred and a corresponding increase in the carrying amount of the related long-lived asset and is effective for fiscal years beginning after June 15, 2001.

Statement 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, provides that long-lived assets to be disposed of by sale be measured at the lower of carrying mount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. Statement 144 is effective for fiscal years beginning after December 15, 2001.

Currently, the Company does not believe that the impact of these accounting pronouncements would be material to the financial results.

Critical Accounting Policies

On December 12, 2001, the Securities and Exchange Commission issued a cautionary advice regarding the disclosure of critical accounting policies. Critical accounting policies are those that management believes are both most important to the portrayal of the Company's financial conditions and results, and that require difficult, subjective, or complex judgements, often as a result of the need to make estimates about the effects of matters that involve uncertainty.

We believe the "critical" accounting policies we use in preparation of our financial statements are as follows:

<u>Revenue recognition</u>

Software sales revenue:

The Company recognizes revenue consistent with Statement of Position 97-2, "*Software Revenue Recognition*". In accordance with this Statement, revenue is recognized, except as noted below, when all of the following criteria are met; persuasive evidence of a contractual arrangement exists, title has passed, delivery and customer acceptance has occurred, the sales price is fixed or determinable and collection is reasonably assured.

When a software product requires significant production, modification or customization, the Company generally accounts for the arrangement using the percentage-of-completion method of contract accounting. Progress to completion is measured by the proportion that activities completed are to the activities required under each arrangement. When the current estimate on a contract indicates a loss, a provision for the entire loss on the contract is made.

When software is sold under contractual arrangements that includes post contract customer support ("PCS"), the elements are accounted for separately if vendor specific objective evidence ("VSOE") of fair value exists for all undelivered elements. VSOE is identified by reference to renewal arrangements for similar levels of support covering comparable periods. If such evidence does not exist, revenue on the completed arrangement is deferred until the earlier of (a) VSOE being established or (b) all of the undelivered elements are delivered or performed, with the following exceptions: if the only undelivered element is PCS, the entire fee is recognized ratably over the PCS period, and if the only undelivered element is service, the entire fee is recognized as the services are performed.

The Company provides for estimated returns and warranty costs, which to date have been nominal, on recognition of revenue.

Support and services revenue:

Contract support and services revenue is deferred and is amortized to revenue ratably over the period that the support and services are provided.

Use of estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported or disclosed in the financial statements. Actual amounts may differ from these estimates.

Stock-based compensation

Effective January 1, 2002, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants with respect to the accounting for stock-based compensation and other stock-based payments. The new recommendations require equity instruments awarded to employees and the cost of the service received as consideration to be measured and recognized based on the fair value of the equity instruments issued. Compensation expense is recorded over the period of related employee service, usually the vesting period of the equity instrument awarded. Alternatively, the new recommendations permit the measurement of compensation expense for stock option grants to employees and directors that are not direct awards of stock, stock appreciation rights or otherwise call for settlement in cash or other assets by an alternative method and to provide pro forma disclosure of the financial results using the fair value method. The Company has elected to follow an alternative method and continue with the former accounting policy of recognizing no compensation expense when stock options are granted to employees because the Company grants stock options with an exercise price based on the market price at the date of the grant. The Company recognizes compensation expense for consultants based on the fair value of the equity instruments issued.

PART II

Item 1. Legal Proceedings.

As of the date of this Quarterly Report, the Company is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material effect on the Company's results of operations or financial position. From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business.

Item 2. Changes in Securities.

a) None

b) None

c) The Company issued 133,165 common shares upon the exercise of stock options by sixteen (16) non-U.S. persons in private transactions outside the United States for gross proceeds to the Company of $134,415. The options were exercised on the following dates for the following amounts: January 4, 2002 - 45,000 options for gross proceeds to the Company of $45,000; January 25, 2002 - 13,500 options for gross proceeds to the Company of $13,500; January 29, 2002 - 16,166 options for gross proceeds to the Company of $16,166; January 31, 2002 - 25,833 options for gross proceeds to the Company of $25,833; February 7, 2002 - 5,000 options for gross proceeds to the Company of $5,000; February 19, 2002 - 7,666 options for gross proceeds to the Company of $7,666; February 21, 2002 - 4,000 options for gross proceeds to the Company of $4,000; February 28, 2002 - 13,500 options for gross proceeds to the Company of $13,500; and March 19, 2002 - 2,500 options for gross proceeds to the Company of $3,750. The common shares were issued in reliance upon Regulation S promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The Company issued 184,135 common shares upon the exercise of warrants by five (5) non-U.S. persons in private transactions outside the United States for gross proceeds to the Company of $389,333. These warrants were exercised on the following dates for the following amounts: February 4, 2002 - 17,850 warrants for gross proceeds to the Company of $19,635; March 11, 2002 - 127,077 warrants for gross proceeds to the Company of $289,057; March 11, 2002 - 4,150 warrants for gross proceeds to the Company of $4,565, and March 25, 2002 - 35,058 warrants for gross proceeds to the Company of $76,076. The common shares were issued in reliance upon Regulation S promulgated under the Securities Act.

The Company issued 551,037 common shares upon the conversion of special warrants into common shares by four (4) non-U.S. persons in private non-cash transactions outside the United States for deemed gross proceeds to the Company of $1,195,750. These special warrants were exercised on the following dates for the following amounts: February 26, 2002 - 70,000 special warrants for deemed gross proceeds to the Company of $151,900; and March 11, 2002 - 481,037 special warrants for deemed gross proceeds to the Company of $1,043,850. The common shares were issued in reliance upon Regulation S promulgated under the Securities Act.

The Company granted stock options exercisable to acquire 340,000 common shares to certain employees, directors and consultants who were non-U.S. persons in a private offering outside the United States. The options were issued in reliance upon Regulation S promulgated under the Securities Act.

On January 18, 2002, the Company issued warrants exercisable to acquire 50,000 common shares to Pembridge Venture Partners ("PVP"). The warrants were issued in reliance upon Rule 506 of Regulation D promulgated under the Securities Act of 1933. PVP represented to the Company that it was an "accredited investor", as such term is defined under Rule 501 of Regulation D promulgated under the Securities Act.

On February 2, 2002, the Company granted stock options exercisable to acquire 100,000 common shares to Sanjay Sabnani, a consultant to the Company. The options were issued in reliance upon Rule 506 of Regulation D under the Securities Act of 1933. Mr. Sabnani represented to the Company

that he was an "accredited investor", as such term is defined under Rule 501 of Regulation D promulgated under the Securities Act.

On February 8, 2002, the Company issued 37,500 shares to Roth Capital Partners ("RCP") as required by the financial services agreement between the Company and RCP. The shares were issued in reliance upon Section 4(2) under the Securities Act. In relying upon such exemption (i) the Company did not engage in any "general solicitation", (ii) RCP represented and the Company reasonably believed that it had such knowledge and experience in financial matters such that it was capable of evaluating the merits and risks of the prospective investment and was able to bear the economic risk of such investment, (iii) RCP was provided access to all necessary and adequate information to enable it to evaluate the financial risk inherent in such transaction, (iv) the offer was made only to the RCP, and (v) RCP represented that the it is accepting the shares for itself and not for distribution.

d) None

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders

None

Item 5. Other Information

None

Item 6. Exhibits and Reports Filed on Form 8-K

a) Exhibits

3.1(1)	Articles of Incorporation
4.1(1)	Shareholder Agreement dated February 23, 1999 among the Original Shareholders and the Former Imagis Shareholders
4.2(1)	Escrow Agreement for a Venture Capital Pool Issuer dated July 3, 1998 among Colloquium Capital Corp., CIBC Mellon Trust Company and Sandra Buschau, Altaf Nazerali, Shafiq Nazerali, Rory Godinho and Ross Wilmot
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10.5(1)	Subscription Agreement dated January 26, 1999 between Imagis and Pacific Cascade Consultants Ltd.
10.6(1)	Subscription Agreement dated January 26, 1999 between Imagis and First Capital Invest Corp.

10.7(1)*	Incentive Stock Option Agreements dated February 25, 1999 and March 25, 1999 between Imagis and certain directors, employees and service providers of Imagis or affiliates or subsidiaries thereof
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10.23	Software Assets Sale and Assignment Agreement dated October 31, 2001 between Imagis and API Technologies, LLC
99.1	Risk Factors
99.2	Form 51-901F as required by the British Columbia Securities Commission

* Indicates a management contract or a compensatory plan or arrangement.

(1) Previously filed as part of Imagis' Registration Statement on Form 10-SB (File No. 000-30090).
(2) Previously filed as part of Imagis' Annual Report on Form 10-KSB for the year ended December 31, 1999.
(3) Previously filed as part of Imagis' Quarterly Report on Form 10-QSB for the period ended September 30, 2000.
(4) Previously filed as part of Imagis' Annual Report on Form 10-KSB for the year ended December 31, 2000.
(5) Previously filed as part of Imagis' Quarterly Report on Form 10-QSB for the period ended March 31, 2001.
(6) Previously filed as part of Imagis' Quarterly Report on Form 10-QSB for the period ended June 30, 2001.

b) Reports on Form 8-K

On January 3, 2002, the Company filed a Form 8-K relating to a press release dated December 13, 2001, in which the Company announced that it had retained Roth Capital Partners headquartered in Newport Beach, California, to act as its financial advisor. During the next six months, Roth Capital has agreed to advise Imagis on strategic alternatives, including financing, mergers and acquisitions, business combinations, and joint ventures.

On January 25, 2002, the Company filed a Form 8-K relating to a press release dated January 3, 2002, in which the Company announced that it had entered into an engagement letter with PVP under which PVP would provide strategic financial advice to the Company.

On January 25, 2002, the Company filed a Form 8-K relating to a press release dated January 10, 2002, in which the Company announced that its business partner, Abbey Group Consultants Inc. ("AGC"), had purchased the Company's photo capture and tracking system, a customized version of CABS, which will serve the Orange County Probation Department in California.

On February 19, 2002, the Company filed a Form 8-K relating to (i) a press release dated January 22, 2002, in which the Company announced that the National Crime Squad had purchased a biometric facial recognition solution based on the Company's ID-2000 software through Serco PLC; (ii) a press release dated January 23, 2002, in which the Company announced that it, together with the Sanyo Semiconductor Company and Intacta Technologies Inc. had entered into a Memorandum of Understanding to form a strategic alliance to develop, manufacture and market hardware and software solutions to create integrated systems; (iii) a press release dated February 5, 2002, in which the Company announced the release of its Software Development Kit, Version 8, the latest version of the Company's ID-2000 facial recognition technology; (iv) a press release dated February 12, 2002, in which the Company and Orion Scientific Systems announced that they have completed the deployment of a digital image and data sharing solution for use at all law enforcement agencies throughout Alameda; (v) a press release dated February 14, 2002, in which the Company announced that it had been invited to present at the 14th Annual Roth Capital Growth Conference in Laguna Niguel, California; (vi) a press release dated February 14, 2002, in which the Company announced that Mr. Michael Brave, the former Department of Justice Chief of the Intelligence & Investigative Operations Unit, Office of Enforcement Operations, Criminal Division has joined the API group of companies, one of the Company's business partners; and (vii) a press release dated February 14, 2002 in which the Company announced that it had retained Sanjay Sabnani, President of Typhoon Capital Consultants, LLC as Manager of Business Development Strategy and U.S. Investor Relations.

On March 1, 2002, the Company filed a Form 8-K relating to (i) a press release dated February 21, 2002, in which the Company announced that it had agreed to extend the expiry date of 266,666 warrants held by its President, Mr. Iain Drummond, from February 25, 2002 to June 25, 2002 and (ii) a press release dated February 26, 2002, in which the Company announced it had expanded to Europe with offices in the UK.

On March 27, 2002, the Company filed a Form 8-K relating to (i) a press release dated March 4, 2002, in which the Company announced that Mr. Roy Davidson Trivett had been appointed to the board of directors; (ii) a press release dated March 5, 2002, in which the Company announced that it intends to enter into a strategic alliance with OSI Systems, Inc., pending the successful negotiation and execution of a definitive agreement for the design, development and marketing of aviation and transportation security products based on Imagis' biometric facial recognition software; (iii) a press release dated March 6, 2002, in which the Company announced that it had received a letter from the Pembridge Group requesting that the board consider a proposal to take the Company private; (iv) a press release dated March 6, 2002, in which the Company announced that it had an office in Australia and appointed Mr. Roger Henning as regional director for Asia Pacific; and (v) a press release dated March 12, 2002, in which the Company, together with Sanyo Electric Co., Ltd. and Intacta Technologies Inc., announced the formation of SecurityART Inc. to integrate the hardware and software technologies of all three companies to provide a high-level, robust and multi-level security and verification solution for access control.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Issuer has duly caused this Quarterly Report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: May 7, 2002

IMAGIS TECHNOLOGIES INC.

/s/ Ross Wilmot

Ross Wilmot
Chief Financial Officer
(Principal Financial and Accounting Officer and Duly Authorized Officer)

EXHIBIT INDEX

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SOFTWARE ASSETS SALE AND ASSIGNMENT AGREEMENT

THIS SOFTWARE ASSETS SALE AND ASSIGNMENT AGREEMENT (the "Agreement") made the 31 st day of October, 2001 (the "Effective Date").

BETWEEN:

IMAGIS TECHNOLOGIES INC.,

a British Columbia company having an address at Suite 1300, 1075 West Georgia Street, Vancouver, British Columbia, Canada V6E 3C9, (Fax No. (604) 684-4601)

(herein "Imagis")

OF THE FIRST PART

AND:

API TECHNOLOGIES, LLC

a Wisconsin limited liability company having its head office at 200 Doty Street, Suite 202, Green Bay, Wisconsin, USA 54301, (Fax No. (920) 437-7585)

(herein "API")

OF THE SECOND PART

WITNESSES THAT WHEREAS:

A. Imagis is the owner of a computer software program marketed by Imagis under the trademark Casino-ID (the "Program", as defined further in Section 1, below), which is used to catalogue and process data and imagery to identify individuals, for use as a security device and application in the gaming industry;

B. Pursuant to the terms of that certain Business Partner Agreement (the "BPA") between the parties dated January 9, 2001 and attached hereto as **Exhibit A**, the parties agreed, among other things, that API would act as a non-exclusive reseller of the Program, as well as other specified computer software programs of Imagis, for the purpose of reselling such software programs to API's customers;

C. API wishes to acquire from Imagis and Imagis wishes to sell to API all ownership rights in and to the Program with respect to the market segment as specified herein and in consequence thereof the parties also wish to amend the BPA in accordance with the terms specified herein and

agree to certain other covenants in respect to the Program and related software applications developed by Imagis.

NOW THEREFORE in consideration of the above Recitals, the mutual covenants and agreements set out herein and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged by both of the parties, the parties hereby agree as follows:

1. DEFINITIONS

1.1 Wherever used in this Agreement and unless otherwise expressly specified, the following words or terms will have the following meanings:

(a) "Affiliate" means, with respect to any party, any other party that directly, and/or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with such party;

(b) "Agreement" means this Software Assets Sale and Assignment Agreement, including all Exhibits and Schedules appended hereto and all addenda agreed to from time to time;

(c) "consent" means express prior written consent, such consent not to be unreasonably delayed or withheld;

(d) "Contracts" all contracts, agreements, purchase orders, sales orders of or for Imagis relating to the Program, including but not limited to, those identified on Schedule 1(d);

(e) "Effective Date" means the date first set out above;

(f) "Good Will" all goodwill and going concern value of the Program;

(g) "Gross Revenues" means the monies paid by end-users to API and/or its distributors and sub-distributors, as applicable, in consideration of: (i) licenses to use the Program; (ii) sub-licences to use ID-2000, excluding only applicable sales, use or other taxes in respect of such licenses, sub-licences and other commercialisation;

(h) "ID-2000" means the proprietary facial recognition computer software program owned by Imagis and marketed under that trade-mark;

(i) "including" means including, without limiting the generality of the preceding statement;

(j) "Loss" means any liability, damage, claim, cost and expense (including reasonable attorneys', accountants', expert and other professional fees and costs);

(k) "Market" means the gaming industry, including casinos, card rooms, horse tracks, dog tracks, cruise ships, casino cruises and adjacent and supporting complexes

(such as parking structures and hotels, provided such parking structures and/or hotels are contiguous to any of the foregoing listed gaming facilities), but expressly excludes any law enforcement applications of the Program and any such hotel that is not contiguous to any of the foregoing listed gaming facilities);

(1) "Modifications" means all error-corrections, bug fixes, enhancements, improvements, new features, new functions and other modifications to the Program;

(m) "Non-Compete Term" means the Term and any renewal term, as further described and extended in Section 3.6, below;

(n) "Program" all software (including object and source code, and machine readable and listing form), documentation (including internal documentation, documentation made available to customers and training materials), flow charts, source code notes, test routines and information, in whatever form, and all revisions, release levels, input data, routines, data bases and report layouts and formats, record file layouts, diagrams, functional specifications and narrative descriptions and versions of the foregoing, used on or with the casino surveillance software application, commonly known as "Casino-ID," as developed by or for Imagis and/or offered for sale or license by Imagis, or in the possession of Imagis;

(o) "Proprietary Rights" all patents, patent applications, copyrights, trade secrets, trade marks, trade names, and other proprietary rights based, in whole or in part, or included in or covering the Program, the Related Assets, the Good Will or any portion thereof, including any rights Imagis now or in the future may have to pursue infringement claims against third parties relative to the misappropriation or use of the Program, Related Assets and/or Good Will in any jurisdiction whatsoever;

(p) "Purchase Price" means the sum of $305,000.00 (U.S. Funds), net of any applicable taxes as further described in Section 2.2, below;

(q) "Related Assets" means all raw materials, work in process, inventories, sales literature, promotional literature, catalogues and similar marketing materials of Imagis, all quotes, proposals, orders, invoices, customer information including customer lists, records, correspondence and files), supplier information (including supplier lists, records, correspondence and files), blueprints, specifications, designs, drawings and other operating data of Imagis related to the Program and Proprietary Rights;

(r) "Software Assets" means the Contracts, Goodwill, Program, Proprietary Rights and Related Assets;

(s) "Term" means the period of three (3) years from the date that Imagis receives the Purchase Price in full and includes any renewal thereof;

(t) "Territory" means the entire world (including land, sea and air); and

(u) "Transfer Date" means the date when API pays the balance of the Purchase Price in accordance with Section 2.3, below.

2. SALE AND ASSIGNMENT OF THE SOFTWARE ASSETS

2.1 **Sale and Assignment of Software Assets.** Subject to the terms and conditions herein, Imagis will sell, assign and deliver to API and API will purchase and accept from Imagis, all of Imagis' rights , title and interest in and to the Software Assets. API will not use, reproduce, translate, sell, license, sublicense, rent, lend, lease, communicate by telecommunication, distribute or otherwise commercialize the Program or make Modifications to the Program, otherwise than as set forth expressly herein.

2.2 **Purchase Price.** The Purchase Price will be paid by API to Imagis in the following manner:

(a) $150,000 will be paid immediately upon the earlier of execution and delivery of this Agreement by API or October 31, 2001; and

(b) $155,000 will be paid via wire transfer to a banking institution designated by Imagis on the date Imagis shall have completed the knowledge transfer and physical delivery of the Software Assets to API's designee(s) in accordance with the terms and conditions of Section 2.3, below ,which shall in no event occur later than November 30, 2001.

Both such payments will be made in US funds by way of bank draft from a financial institution in the United States or Canada reasonably approved by Imagis or by way of wire transfer to a financial institution designated by Imagis. The Purchase Price is net of all applicable sales, value added, goods and services, excise, withholding and other taxes, all of which taxes imposed by the United States, any of its states or other governmental units which API shall pay when due, and all of which taxes imposed by Canada, any Canadian province or other governmental unit Imagis shall pay when due.

2.3 **Transfer of Software Assets.** During November 2001, designees of API shall arrive at Imagis' offices in Vancouver, British Columbia to facilitate the physical transfer of the Software Assets to API. This transfer process shall include educating API's designees on all aspects concerning the operation, functionality and applications of the Program so as to provide API with the ability to gain the knowledge necessary to further develop, exploit, market and sell the Software Assets for API's own use and benefit within the Market. The knowledge transfer process shall last no more than five (5) business days and Imagis agrees to consult with API's designees to complete the knowledge transfer process. In addition, Imagis shall permit API's designees to observe and participate in the integration of ID-2000 for ten (10) additional business days so as to further API's understanding of the functionality, application and interface between ID-2000 and the Program. API shall pay for all travel, lodging and related expenses incurred by its designees. At the conclusion of the knowledge transfer period, Imagis shall complete physical delivery of the Software Assets to API and API and Imagis will sign the closing certificate attached hereto as **Exhibit 2.3** and a Bill of Sale and such other documents which are necessary to complete the transactions contemplated herein. Concurrently with the physical

delivery of the Program to API's designees, API shall complete a wire transfer of $155,000.00 to Imagis' designated bank account.

2.4 **Failure to Pay Purchase Price.** If API fails to make any payment of the Purchase Price in full when due, Imagis will have, in its sole discretion, the right to terminate this Agreement and its further obligations hereunder, immediately upon provision of written notice of such intention to API and API's failure to make the requisite payment within two (2) business days of the written demand by Imagis. In such event, Imagis' obligations under this Agreement will be terminated and this Agreement will be null and void and of no further force and effect, provided that Imagis shall return to API all monies previously paid to it under this Agreement by API prior to the date of such termination, less the sum of $10,000.00, which Imagis shall retain as liquidated damages in full and final satisfaction of any claims Imagis may have as a result of API's failure to complete the transactions contemplated in this Agreement. In such event, API shall make no use of any Software Assets of Imagis, or information provided during the knowledge transfer process by Imagis to API, and will promptly return to Imagis all deliverables provided by Imagis to API.

2.5 **Non-Assignment of ID-2000.** Except as set forth expressly herein, API acknowledges that it is not obtaining, under this Agreement or otherwise, any ownership rights to ID-2000 that are in addition to those already set forth in Section 3.8, below, and that ID-2000 remains the exclusive property of Imagis.

2.6 **Assumption of Contracts.** API shall have the right to assume the Contracts, subject to its confirmation of the terms and conditions therein, which shall be reasonably satisfactory to API. Notwithstanding the foregoing, API shall not assume any liability with respect to the Contracts which exists or accrues prior to the date API shall have notified Imagis of API's desire to assume the Contracts. In such event, Imagis shall assign all of its right, title and interest in and to the Contracts to API. Imagis agrees and acknowledges that notwithstanding such assignment or any other term or condition of this Agreement, API has not assumed and Imagis shall remain liable for and discharge promptly when due all liabilities, costs, expenses, losses, damages or other expenses relating to the Software Assets which exist or have accrued prior to or as of the Transfer Date.

3. COVENANTS

3.1 **Royalty Payments to Imagis.** During the Term and provided Imagis is not in default of any term, condition or covenant of this Agreement, and further subject to Section 3.2 below, API will pay the following royalties to Imagis:

(a) 20% of the Gross Revenues in respect of the Program (not to exceed U.S. $2,500.00 per location as further described on Schedule 3.1 attached hereto);

(b) 40% of the Gross Revenues in respect of ID-2000, when ID-2000 is licensed in combination with the Program (not to exceed $5,000.00per location as described further in **Schedule 3.1** attached hereto); and

(c) the sum of $1,000.00 per year per API customer that receives support services from API or its distributors or sub-distributors, as applicable, for ID-2000.

API will, within ten (10) business days of the end of each month during the Term, deliver to Imagis a detailed, written summary setting out details of API's commercialisation and support of the Program and ID-2000 during the preceding calendar month, including a calculation of the Gross Revenues for such month and, if applicable, a cheque payable to Imagis in the amount of the royalties payable, as calculated above, for such month.

3.2 **Minimum Royalty Payments Due Imagis.** Regardless of the license, sub-license or other fees charged by API or any API distributor or sub-distributor, as applicable, to any particular end user for the Program and/or ID-2000 or the allocation of such fees between the Program and ID-2000, the minimum royalty payable to Imagis by API as a result of any such license, sub-license or other commercialisation of the Program and/or ID-2000 to an end user will be the greater of the royalties described in **Schedule 3.1** or

(a) in the case of Program, $2,000.00; and

(b) in the case of ID-2000, $4,000.00.

3.3 **Sale of Program.** If during the Term API sells all of its rights, title and interest in and to the Program, transfers and otherwise makes any disposition of all of its rights to the Program or any portion thereof to a third party (any such sale, conveyance or other disposition of the Program collectively referred to as an "Asset Disposition"), API will promptly report the details of such Asset Disposition to Imagis and the purchaser/assignee of the Program shall as a condition of such purchase and/or assignment continue to pay all royalty payments due under this Agreement to Imagis. In addition, API shall pay Imagis a percentage of the purchase price or the fair market value of any other form of consideration (collectively the "Asset Disposition Consideration") API receives as a result of an Asset Disposition as follows:

(a) if the Asset Disposition occurs during months 1-12 of the Term, API shall pay Imagis twenty percent (20%) of the Asset Disposition Consideration in excess of the Purchase Price;

(b) if the Asset Disposition occurs during months 13-24 of the Term, API shall pay Imagis ten percent (10%) of the Asset Disposition Consideration in excess of the Purchase Price; and

(c) if the Asset Disposition occurs during months 25-36 of the Term, API shall pay Imagis five percent (5%) of the Asset Disposition Consideration in excess of the Purchase Price.

3.4 **Audit Rights.** During the Term and to ensure API's compliance with its obligations in this Section 3, Imagis will be entitled to review and/or audit the records and books of account of API in relation to the Program and ID-2000, upon provision of ten (10) days written notice to API of such intent, but not more than four (4) separate occasions during the Term. API will make all such books and records of accounts available to Imagis during API's regular business hours at API's address first set out above. If, as a result of such review or audit Imagis discovers that API has underpaid any amount properly owing to Imagis hereunder by more than 5%, then in addition to any other rights, remedies of Imagis, API will immediately pay Imagis the amount of any such shortfall and will immediately reimburse Imagis for the cost of any such review or audit. If the underpayment is less than 5%. API will immediately pay Imagis the shortfall. If the audit reveals an overpayment by API, Imagis shall credit the overpayment to API. API agrees to keep all of its books and records of account relating to this Agreement, complete, accurate and up-to-date at all times during the Term.

3.5 **Interest Penalty.** In addition to any other right or remedy of Imagis hereunder, if any amount owing to Imagis hereunder is not received by Imagis at the time that it is properly due, API will pay interest on such delinquent amount at the rate of 18% per annum calculated from the date such payment was due until the date such payment is made in full.

3.6 **Term, Renewal and Termination.** The Term will automatically renew for successive periods of one (1) year each unless, at least 30 days prior to the end of the Term or any renewal thereof, either party notifies the other party of its intention to terminate the Agreement; provided, however, that the covenants and agreements in Section 6.1 and 6.2 shall survive for a period of two (2) years (the "Extended Non-Compete Term") following any such termination of this Agreement by Imagis, subject to the payment of not less than $50,000.00 in royalties by API to Imagis during each twelve (12) month period of the Extended Non-Compete Term in accordance with the terms and conditions of Sections 3.1 and 3.2, above. (i.e., Imagis shall receive the greater of the royalties due in accordance with Sections 3.1 and 3.2, above or $100,000.00 in aggregate royalties during the Extended Non-Compete Term). Either party may terminate this Agreement upon commission by the other party of a material breach of this Agreement; provide , however, the breaching party shall not be deemed to be in default until it has been given written notice thereof and, if such breach is capable of cure, has so cured or commenced and continued reasonable measures to cure said breach within sixty (60) days following receipt of such notification. Where noted, the obligations of the parties under this Agreement shall survive expiration or termination of this Agreement in accordance with the survival periods referenced therein.

3.7 **Modifications.** API will be the owner of any Modifications that it creates (including any additional biometric appliations API may develop in respect to the Program), provided that such Modifications will only be used with the Program for the Market in the Territory, as specified in Section 2.1, herein during the Term.

3.8 **License Grant and Continued Use of ID-2000.** Subject to the terms and conditions set forth in this Agreement, Imagis hereby grants to API a perpetual, nonexclusive, nontransferable license to use, modify, improve and exploit ID-2000 for the requirements of the Program. In addition, Imagis will furnish to API within a reasonable time after it makes any available to its customers one (1) copy of any new release, enhancement, modification, correction or update to ID-2000, in object code form, which is published and generally made commercially available by Imagis during the Term. Throughout the Term, API shall only use ID-2000 to add facial recognition capabilities to the Program.

3.9 **Ownership of Work Product.** Technical data, evaluations, reports, and other work, and products generated by or furnished by either party hereunder shall remain the property of the party who has primarily developed such work product, subject to the restrictions and noncompete covenants set forth in this Agreement. Any tools, methodologies, processes or

technologies created or adapted by either party in its business generally shall be and remain that party's sole property.

4. ADDENDUM TO THE BPA

4.1 **Effectiveness of BPA.** The BPA remains in full force and effect and unamended except as specified herein. In addition, API and Imagis shall enter into the Memorandum of Understanding attached hereto as **Exhibit 4.1**.

4.2 **Amendment to BPA** The BPA is amended, effective October 31, 2001, by deleting the requirement that API pay any royalties (other than those specified herein) to Imagis with respect to the Program and by adjusting, effective October 31, 2001, the royalty rate payable by API with respect to ID-2000 in accordance with Section 3.1 (b) herein. Sections 7, 9, 10, 11, 12, 14, 15, 16, 17, 18, 20, 21 and 22 of Appendix "D" to the BPA are hereby deleted, effective as of the Effective Date.

4.3 **Further Training and Consultation.** From and after the Transfer Date, except for the training and delivery of Modifications of ID-2000 as specified herein and the limited phone and e-mail assistance described below, Imagis will have no other obligation to provide any further maintenance, support, installation, training, conversion or other services to API or its customers, distributors, resellers or any other party, with respect to the Program, including the programming necessary to maintain the interface of the Program with ID-2000 and any obligation to create Modifications. API will be responsible for all such services itself. Imagis will, however, continue to be responsible to support ID-2000 in accordance with the BPA, subject to its receipt of the support fees specified in Section 3.1 herein. Imagis will provide training on the source code for ID-2000 (the "Source Code") to API's designated developers at Imagis' development centre in Victoria, British Columbia at such time as the parties agree to, acting reasonably. There will be no charge to API for such training, however API will be responsible for all travel, accommodation and related expenses of its personnel incurred in attending such training. In addition, Imagis will respond by telephone or e-mail to reasonably limited queries about the Source Code, received from API during the Term by not more than two (2) contact persons of API at any such time during the first three (3) months of the Term.

4.4 **Intellectual Property Registration Or Prosecution.** Following the Effective Date and provided API is not in default under this Agreement, Imagis shall reasonably assist and cooperate with API to secure copyright, patent or other intellectual property registrations for the Software Assets or with respect to any action API initiates to protect its rights in and to the Software Assets; provided, however, in no event shall such assistance involve more than two (2) business days of consultation from Imagis personnel, subject in all cases to availability. API shall reimburse Imagis for any actual out-of-pocket expenses Imagis may incur in respect to this Section 4.4, provided that Imagis shall advise API in advance that it expects to incur any such expense to allow API to determine whether it intends to incur such an expense.

4.5 **Business Leads And Transition.** Throughout the Term, Imagis shall promptly forward to API all sales lead and inquiries Imagis receives with respect to the Program. API shall establish internal procedures to ensure that it promptly responds to any such sales leads. For a period of ninety (90) days following the Transfer Date, Imagis shall include a statement on its

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website announcing API's acquisition of the Software Assets and provide a link to the website API shall develop to ensure the transition of all Goodwill related to the Software Assets to API.

5. REPRESENTATIONS/WARRANTIES

5.1 **Representations and Warranties of Imagis.** Imagis represents and warrants to API as follows as of the execution of this Agreement and as of the Transfer Date

5.1.1 **Standing**. Imagis is a corporation duly organised, validly existing and in good standing under the laws of British Columbia, and is duly qualified to do business in Canada and the United States and has full power and authority to carry on its current business and to own, use and sell its assets, including the Software Assets.

5.1.2 **Execution of Agreement**. The execution and delivery of this Agreement to API and the carrying out of the provisions hereof have been duly authorized by the Board of Directors of Imagis, and Imagis shall furnish to API duly certified copies of the authorizing resolutions of Imagis' Board of Directors approving the transactions described herein within sixty (60) days of the Effective Date.

5.1.3 **Contracts, Licenses, Permits and Approvals.** With the exception of the purchase and maintenance agreements described on Schedule 1(d) attached hereto, Imagis has no presently existing contracts or commitments in any way relating to the Software Assets.

5.1.4 **Compliance**. Neither the execution and delivery of this Agreement, nor any instrument or Agreement to be delivered by Imagis to API pursuant to this Agreement, nor the compliance with the terms and provisions thereof, by Imagis, will result in the breach of any applicable statute or regulation promulgated thereunder or any administrative or court order or decree, nor will such compliance conflict with, or result in the breach of, any of the terms, conditions or provisions of the certificate of incorporation or bylaws of Imagis, as amended, or any agreement or other instrument to which Imagis is a party, or by which Imagis is or may be bound, or constitute an event of default or default thereunder or with the lapse of time or the giving of notice or both constitute an event of default thereunder.

5.1.5 **Litigation** There is no suit or action, or legal, administrative, arbitration or other proceeding or governmental investigation affecting the Program, Related Assets, Goodwill or Proprietary Rights pending, or to the best knowledge and belief of Imagis, threatened against Imagis which materially or adversely affects the business of Imagis relating to the Program, Related Assets, Proprietary Rights or Good Will. Imagis further represents and warrants that there is no outstanding judgement, decree or order against Imagis that affects Imagis or the Program, Related Assets, Proprietary Rights or Good Will in any way.

5.1.6 **Effect of Agreement**. The terms and conditions of this Agreement and all other instruments and agreements to be delivered by Imagis to API pursuant to the terms and conditions of this Agreement are valid, binding and enforceable against Imagis in accordance with their terms, subject only to the applicable bankruptcy, moratorium and other laws generally affecting the rights and remedies of creditors.

5.1.7 **Intellectual Property Rights Issues.**

(a) Imagis owns or has the right to use, modify, exploit, market and sell the Software Assets as is necessary to the conduct of its business. Imagis' rights in the Software Assets are free and clear of any liens, encumbrances, restrictions, or legal or equitable claims of others. Imagis has filed no registrations or applications to protect its copyright, patent, trademark, trade secret or any other intellectual property rights, but has otherwise taken appropriate measures to protect the secrecy, confidentiality and value of the Software Assets.

(b) Imagis has clear and unencumbered title to the Software Assets and such title has not been challenged or threatened by others. No rights or licenses to use the Software Assets have been granted or acquired by Imagis except those listed at **Schedule 1 (d).**

(c) There have been (i) no claims or assertions made by others that Imagis has infringed any rights of others by virtue of its use, exploitation, marketing or sale of the Software Assets and (ii) the use, exploitation, marketing or sale of the Software Assets by Imagis has not and does not infringe upon the rights or claims of any other party as of the Transfer Date. Imagis has not received notice of, and has no knowledge of, any infringement or allegation of infringement of the Software Assets by others.

(d) All rights of Imagis in and to the Software Assets and ID-2000 are transferable or licensable (as applicable to ID-2000) to API as contemplated herein without any consent or other approval by any third party, and Imagis is not subject to any judgment, order, writ, injunction or decree of any court or any Federal, state, local or other governmental agency or instrumentality, domestic or foreign, or any arbitrator. The use, exploitation, marketing and/or sale of the Software Assets by API as contemplated herein after the Effective Date and the manner and geographic areas in which it is currently conducted by Imagis will not and does not presently interfere with or infringe upon any copyright, patent, trademark, trade secret or any asserted rights of others with respect to the current functions, applications, trade dress or packaging of any products.

(e) Imagis is not subject to any judgment, order, writ, injunction or decree of any court or any Federal, state, local or other governmental agency or instrumentality, domestic or foreign, or any arbitrator, or has entered into or is a party to any contract which restricts or impairs the use of the Software Assets. Imagis has all right, title and interest necessary for the non-infringing publication, reproduction, preparation of derivative works, distribution, public performance, public display and importation of the Software Assets. No Canadian filing or recording fees, stamp or transfer taxes or other fees, costs or taxes of any kind will be payable by API in connection with the consummation of the transactions contemplated hereby.

(f) Imagis shall deliver API on the Transfer Date all information in its possession in the nature of know-how, trade secrets or proprietary information related to the Software Assets which provides Imagis with an advantage over competitors who do not know or use it, including source codes, formulae, patterns, molds, tooling, inventions, industrial models, processes, designs, devices, compilations of information, copyrightable material and technical information, if any, relating to the Software Assets (the "Technical Information"). All Technical Information:

(i) Is owned solely and exclusively by Imagis and Imagis is solely responsible for the development of such Technical Information;

(ii) Is fully and completely documented and in condition for conveyance to and readily usable by API; and

(iii) Has been continuously maintained in confidence by taking reasonable precautions to protect the secrecy of all Technical Information and prevent disclosure to unauthorized parties.

All Technical Information and any copies thereof shall be delivered to API at the Transfer Date. Imagis has no knowledge of any violation of any trade secret rights or copyrights with respect to such Technical Information.

Imagis has all necessary right, title and interest to the Software Assets and Technical Information. With respect to the Software Assets:

(i) All software documentation is current, accurate and sufficient in detail and content to identify and explain the nature thereof, and to allow its full and proper use by API without reliance on the special knowledge or memory of others;

(ii) No proprietary rights in the Software Assets has been transferred, whether by sale, assignment or license, or have been lost for any reason; and

(iii) Any copies of the Program are in Imagis' possession and control.

5.1.8 **Absence of Defects.** Imagis has no knowledge of any major defects, bugs or other materially adverse conditions affecting the fitness and utility of the Program.

5.1.9 **Full Disclosure.** No representation or warranty by Imagis in this Agreement or any document provided hereunder contains or will contain any untrue statement or omissions or will omit to state any material fact necessary to make the statements contained herein or therein not misleading. All representations and warranties made by Imagis in this Agreement and any documents provided hereunder shall be true and correct as of the Transfer Date with the same force and effect as if they had been made on and as of such date.

5.2 **Representations and Warranties of API.** API represents and warrants to Imagis as follows as of the Effective Date and as of the Transfer Date:

5.2.1 **Standing.** API is a limited liability company duly organized, validly existing and in good standing under the laws of the State of Wiscosin, and is duly qualified to do business in the State of Wisconsin and and has full power and authority to carry on its current business and to own, use and sell its assets.

5.2.2 **Execution of Agreement.** The execution and delivery of this Agreement to Imagis and the carrying out of the provisions hereof have been duly authorized by the sole member of API and at the Transfer Date, API shall furnish to Imagis duly certified copies of the authorizing resolutions of API's sole member approving the transactions described herein.

5.2.3 **Compliance.** Neither the execution and delivery of this Agreement, nor any instrument or agreement to be delivered by API to Imagis pursuant to this Agreement, nor the compliance with the terms and provisions thereof, by API, will result in the breach of any applicable statute or regulation promulgated thereunder or any administrative or court order or decree, nor will such compliance conflict with, or result in the breach of, any of the terms, conditions or provisions of the certificate of incorporation or bylaws of API, as amended, or any agreement or other instrument to which API is a party, or by which API is or may be bound, or constitute an event of default or default thereunder or with the lapse of time or the giving of notice or both constitute an event of default thereunder.

5.2.4 **Litigation.** There is no suit or action, or legal, administrative, arbitration or other proceeding or governmental investigation affecting API pending, or to the best knowledge and belief of API, threatened against API materially or adversely affects the business of API. API further represents and warrants that there is no outstanding judgment, decree or order against API that impacts API's ability to complete the transactions described herein.

5.2.5 **Effect of Agreement.** The terms and conditions of this Agreement and all other instruments and agreements be delivered by API to Imagis pursuant to the terms and conditions of this Agreement are valid, binding and enforceable against API in accordance with their terms, subject only to the applicable bankruptcy, moratorium and other laws generally affecting the rights and remedies of creditors.

5.2.6 **Full Disclosure.** No representation or warranty by API in this Agreement or any document provided hereunder contains or will contain any untrue statement or omissions or will omit to state any material fact necessary to make the statements contained herein or there not misleading. All representations and warranties made by API in this Agreement and any documents provided hereunder shall be true and correct as of the Transfer Date with the same force and effect as if they had been made on and as of such date.

5.3 **Survival of Representations and Warranties.** The representations and warranties of the parties as stated above in this Section 5 shall survive for the Term.

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6. NON-COMPETITION COVENANTS.

6.1 **Non-Compete Covenants.** During the Non-Compete Term, and provided that API is not materially in breach of any of its covenants or obligations beyond the applicable cure period after having received a written notice from Imagis describing the breach, Imagis will not anywhere in the Territory, whether for its own account or for the account of any other person, firm, corporation or other organization, develop, modify, consult on, sell, license, distribute or otherwise commercialise any software program, application or device similar to the Program in the Market and will not develop, modify, consult on, sell, market, license or otherwise commercialise any software program, application or device with similar functionality(s) to the Program for commercial use in the Market. Imagis further agrees not to anywhere in the Territory, whether for its own account or for the account of any other person, firm, corporation or other organization, develop, consult or assist any party, either directly or indirectly, regarding the development, maintenance, operation or administration of a software application, program or other device similar to the Program for use in the Market.

6.2 **Non-Interference Covenant.** Imagis further covenants and agrees that during the NonCompete Term, neither Imagis nor any Affiliate of Imagis will, directly or indirectly, for whatever reason, whether for its own account or for the account of any other person, firm, corporation or other organization, interfere with the existing or potential contracts or relationships of API with any person, firm, corporation or other organization in the Market.

6.3 **Injunctive Relief.** Imagis specifically recognizes that any breach of Section 6.1 or Section 6.2 will cause irreparable injury to API and that actual damages may be difficult to ascertain, and, in any event, may be inadequate. Accordingly (and without limiting the availability of legal or equitable, including injunctive, remedies under any other provisions of this Agreement), Imagis agrees that in the event of any such breach, API will be entitled to injunctive relief in addition to such other legal and equitable remedies that may be available. Imagis recognizes that the time and geographic limitations in Section 6.1 and Section 6.2 are reasonable and properly required for the protection of API and in the event that such limitation or absence is deemed to be unreasonable by a court of competent jurisdiction, Imagis agrees and submits to the imposition of such a limitation as the court deems reasonable.

7. **INDEMNITIES/LIMITATION OF LIABILITY.**

7.1 **Indemnification by Imagis.** Notwithstanding any investigation by API, Imagis shall indemnify and hold API harmless from and against any and all Losses suffered or incurred by API which result from or arise out of:

(a) the material inaccuracy or breach of any representation or warranty made by Imagis herein or in any certificate delivered pursuant hereto;

(b) all debts, liabilities and obligations of Imagis of any nature, whether accrued, absolute, contingent, or known or unknown on the date hereof, existing or arising on or resulting from events which occurred or failed to occur on, before or after the date hereof, to the extent not specifically assumed by API hereunder; or

(c) the failure by Imagis to materially comply with any covenant or agreement of Imagis set forth herein or in any document, instrument or certificate delivered hereunder.

7.2 **Indemnification by API.** API shall indemnify and hold Imagis harmless from and against any and all Losses suffered or incurred by Imagis which result from or arise out of:

(a) the material inaccuracy or breach of any representation or warranty made by API herein or in any certificate delivered pursuant hereto; and

(b) the failure by API to materially comply with any covenant or agreement of API set forth herein or in any document, instrument or certificate delivered hereunder.

Except with respect to the expressed representations and warranties of Imagis herein, the Program is sold to API as is and where is, with no warranties, representations or conditions whatsoever. Except with respect to the expressed representations and warranties of Imagis herein, Imagis disclaims all warranties, representations and conditions, express, implied, statutory and otherwise, in respect of the Program, including all implied warranties and conditions of merchantability, durability and fitness for purpose.

7.3 **<u>Consequential Damages</u>.** EXCLUDING (i) ANY CLAIMS ARISING FROM THE FRAUDULENT OR INTENTIONAL ACTS OF THE PARTIES (ii) ANY CLAIMS RELATED TO THE INFRINGMENT BY THE PROGRAM OF ANY INTELLECTUAL PROPERTY RIGHTS OF ANY THIRD PARTY ARISING WITHIN ONE (1) YEAR OF THIS AGREEMENT OR (iii) ANY CLAIMS ARISING UNDER SECTIONS 5.1.2, 5.1.6, 5.17(B), 5.2.2 OR 5.2.4 HEREOF, NEITHER PARTY WILL BE LIABLE TO THE OTHER FOR ANY INDIRECT, SPECIAL, PUNITIVE, INCIDENTAL OR CONSEQUENTIAL DAMAGES OR DAMAGES FOR PURE ECONOMIC LOSS, INCLUDING DAMAGES FOR LOSS OF BUSINESS, REVENUE OR PROFIT, LOSS OF DATA, FAILURE TO REALIZE ANTICIPATED SAVINGS OR CLAIMS OF THIRD PARTIES EVEN IF EITHER PARTY IS ADVISED OF THE POSSIBILITY OF SUCH DAMAGES. WITH RESPECT TO THE EXCEPTIONS APPLICABLE TO THE EXCLUSION OF CONSEQUENTIAL DAMAGES DESCRIBED IN SUBSECTIONS (ii) and (iii) ABOVE, A CAP OF $600,000.00 SHALL APPLY IN ANY EVENT TO THE DAMAGES OR CLAIMS API MAY RECOVER AGAINST IMAGIS.

7.4 **<u>Limitation Of Liability Related To Program</u>.** EXCLUDING (i) ANY CLAIMS ARISING FROM FRAUDULENT OR INTENTIONAL ACTS OF IMAGIS, (ii) ANY CLAIMS ARISING FROM THE INFRINGEMENT BY THE PROGRAM OF ANY INTELLECTUAL PROPERTY RIGHTS OF ANY THIRD PARTY ARISING WITHIN ONE (1) YEAR OF THIS AGREEMENT OR (iii) ANY CLAIMS ARISING UNDER SECTIONS 5.1.2, 5.1.6 OR 5.17(B), HEREOF, IMAGIS' TOTAL AGGREGATE LIABILITY TO API IN RESPECT OF THE PROGRAM, ANY SERVICES PROVIDED HEREUNDER WILL NOT EXCEED THE TOTAL OF ALL MONIES ACTUALLY PAID TO IMAGIS BY API UNDER THIS AGREEMENT, REGARDLESS OF THE CAUSE OF ACTION (EXCEPT AS EXCLUDED AT THE START OF THIS SECTION), INCLUDING BREACH OF CONTRACT (INCLUDING FUNDAMENTAL BREACH), TORT (INCLUDING NEGLIGENCE), ANY

INFRINGEMENT CLAIMS RELATD TO THE PROGRAM OR STRICT LIABILITY. WITH RESPECT TO THE EXCEPTIONS APPLICABLE TO THE LIMITATION OF LIABILITY DESCRIBED IN SUBSECTIONS (ii) and (iii) ABOVE, A CAP OF $600,000.00 SHALL APPLY IN ANY EVENT TO THE DAMAGES OR CLAIMS API MAY RECOVER AGAINST IMAGIS RELATED TO THE PROGRAM.

7.5 **<u>Additional Indemnity by Imagis.</u>** Imagis will indemnify and hold harmless API from and against Losses incurred by API as the result of any cause of action related to the infringement by the Program of another party's intellectual property rights to the extent such award is based in whole or in part upon an infringement by the Program, in the form it existed at the time the Source Code was delivered to API, provided that API notifies Imagis of such proceeding promptly after API receives notice thereof, Imagis has sole control over the defense and settlement of the proceeding, API provides such assistance in the defense and settlement of the proceeding as Imagis may reasonably request (and at Imagis' sole cost and expense) and API reasonably complies with any settlement or Court order made in connection with such proceeding.

Imagis will have no obligation under this Section 7.5 to the extent that the Program infringes upon any such rights as a result of Modifications not made by Imagis or for the use or distribution of the Program in combination with programs or items not furnished by Imagis, if such infringement would not have occurred from the use or distribution of the Program, in the form it existed at the time the Source Code was delivered to API, alone, or if such infringement arises as a result of Imagis's compliance with API's designs or specifications or if the alleged infringement could have been avoided by the use of a different version of the Program made available to API by Imagis.

7.6 **<u>Additional Indemnity by API</u>.** API will indemnify and save harmless Imagis from and against all cost, loss and expense, including reasonable legal fees and disbursements invoiced to Imagis, arising as a result of any claim by a third party against Imagis based on such third party's use of or inability to use the Program from and after the Transfer Date, provided API or its agents sold or licensed the Program to such third party. API will remove all references to

Imagis from its proprietary notices on the Program and any boot up screens, marketing, advertising and packaging for the Program, but not from any such materials in respect of ID-2000.

7.7 **Survival of Indemnily Obligations.** The indemnity obligations of the parties as stated above in this Section 7 shall survive for the Term, plus two (2) years thereafter.

8. OFFSET RIGHTS.

EITHER PARTY (THE "OFFSETTING PARTY") MAY ASSERT AN OFFSET AGAINST ANY PAYMENT OWED PURSUANT TO THIS AGREEMENT EQUAL TO SUCH AMOUNT AS THE OTHER PARTY SHALL OWE THE OFFSETTING PARTY PURSUANT TO THE TERMS AND CONDITIONS OF THIS AGREEMENT.

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9. GENERAL

9.1 **Amendment.** Except as herein otherwise provided, no subsequent alteration, amendment, change, or addition to this Agreement will be binding upon the parties hereto unless reduced to writing and signed by the parties.

9.2 **Limited Rights of Assigment.** Except in the case of any sale of substantially all of the stock, or assets of a party or the merger or other similar business combination, this Agreement and the rights, duties, and obligations of either party hereunder will not be assigned by either party hereto without the consent of the other party. For the purpose of this Agreement an assignment includes a change in voting control of a party.

9.3 **Entire Agreement.** This Agreement is the entire agreement of the parties with respect of the parties with respect to the subject matter herein. There are no representations, warranties, collateral agreements, or conditions except as herein specified.

9.4 **Binding** . This Agreement will enure to the benefit of and be binding upon the parties and their respective successors and permitted assigns.

9.5 **Further Cooperation.** The parties will execute and deliver all such further documents, do or cause to be done all such further acts and things, and give all such further assurances as may be necessary to give full effect to the provisions and intent of this Agreement.

9.6 **Governing Law.** This Agreement will be governed by and construed in accordance with the laws of the State of Wisconsin, excluding its conflict of law rules.

9.7 **Notice**. Any notice required or permitted to be given to any of the parties to this Agreement will be in writing and may only be given personally (including by courier) or by electronic facsimile transmission to the address of such party first above stated or such other address as any party may specify by notice in writing to the other parties and any such notice will be deemed to have been given and received by the party to whom it was addressed if by facsimile transmission, on successful transmission, or, if delivered, on delivery.

9.8 **Time**. Time is of the essence of this Agreement.

9.9 **Forum; Consent To Jurisdiction.** Any disputes, controversies, differences, claims or demands which the parties are unable to resolve by informal negotiations within thirty (30) days after either party requests such negotiations,, shall be submitted to and resolved by binding arbitration under the procedures, jurisdiction and rules of the American Arbitration Association applicable to commercial disputes and venued in Chicago, Cook County, Illinois. Notwithstanding the provisions hereof, either party may seek appropriate preliminary injunctive relief pending the commencement of arbitration of the disputed matters. In any action to enforce or interpret any agreement, covenant, indemnity or other obligation arising under this Agreement, the non-prevailing party shall pay to the prevailing party its reasonable attorneys fees and costs. The prevailing party will be determined by the court, arbitrator or arbitration panel before whom the action was brought based upon an assessment of which party's major arguments or positions could fairly be said to have prevailed. Any attorneys fees

and other costs and expenses incurred by the prevailing party enforcing the judgment under this Agreement shall be recoverable separately from and in addition to any other amount included in such judgment in favor of the prevailing party.

9.10 **Counterparts.** This Agreement may be executed in several counterparts, each of which will be deemed to be an original and all of which will together constitute one and the same instrument.

9.11 **Execution.** Delivery of an executed copy of this Agreement by electronic facsimile transmission or other means of electronic communication capable of producing a printed copy will be deemed to be execution and delivery of this Agreement as of the Effective Date.

9.12 **Currency.** Unless otherwise provided, all dollar amounts referred to in this Agreement are in lawful money of the United States.

9.13 **Waiver.** Either party may at any time and from time to time waive in whole or in part the benefit to it of any provision in this Agreement or any default by the other party, but any waiver on any occasion will be deemed not to be a waiver of that provision thereafter or of any subsequent default or a waiver of any other provision or default.

9.14 **Non-Cumulative Remedies.** The remedies to which any party hereto may resort are cumulative and not exclusive of any other remedies allowed by law or equity to which such party may be entitled, and such party will be entitled to pursue any and all of its remedies concurrently, consecutively, and alternatively.

9.15 **Severability.** If any covenant or other provision of this Agreement is invalid, illegal, or incapable of being enforced by reason of any rule of law or public policy, then such covenant or other provision will be severed from and will not affect any other covenant or other provision of this Agreement, and this Agreement will be construed as if such invalid, illegal, or unenforceable covenant or provision had never been contained in this Agreement. All other covenants and provisions of this Agreement will, nevertheless, remain in full force and effect and no covenant or provision will be deemed dependent upon any other covenant or provision unless so expressed herein.

9.16 **No Joint Venture.** The relationship of the parties is that of independent contractors and not that of partnership, joint venture, franchise, agency or employment.

9.17 **No Public Announcement.** Neither party will make any public announcement regarding the terms of this Agreement without the consent of the other party.

IN WITNESS WHEREOF the parties hereto have executed and delivered this Agreement to have effect from and after the Effective Date.

{SIGNATURE PAGE TO FOLLOW}

IMAGIS TECHNOLOGIES INC.

Per: "signed"
Iain Drummond, Its President & CEO

API TECHNOLOGIES LLC

Per: "signed"
Dennis Nelson, Its Sole Member

SCHEDULE "A"

LIST OF SOURCE CODE FILES TO BE DELIVERED

To be provided in accordance with Section 2.3

SCHEDULE 1(d)

1 A purchase and maintenance agreement with Gateway Casinos of Burnaby, British Columbia

2 A purchase and maintenance agreement with S and B Corporation of Seoul, Korea

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EXHIBIT 2.3

CLOSING CERTIFICATE

API TECHNOLOGIES, LLC.,

a Wisconsin limited liability company ("API") and IMAGIS TECHNOLOGIES, INC., a British Columbia company ("Imagis"), each hereby acknowledge that it has satisfied all of the requirements and conditions precedent to closing the transaction pursuant to the Software Assets Sale and Assignment Agreement dated October 31, 2001 (the "Agreement"), and each does hereby certify that, as of the date of signing of the Agreement and the date of executing this Satisfaction Certification:

(a) The representations and warranties contained in the Agreement are true and correct in all material respects; and

(b) All covenants, agreements, schedules and exhibits required under the Agreement to be performed, complied with or delivered at or prior to the date hereof have been fully performed, complied with and delivered.

Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Agreement.

Dated this 1st day of November, 2001.

IMAGIS TECHNOLOGIES INC.

Per: "signed"
Iain Drummond

API TECHNOLOGIES, LLC

Per: "signed"
Dennis Nelson, Its Sole Member

SCHEDULE 3.1

Example No. 1: Assuming the license revenues for the Program received by API of $25,000.00 or more the Gross Revenues API shall pay Imagis as follows:

Casino ID Gross Revenue = 20% x $12,500.00 = $2,500.00

ID-2000 = 40% x $12,500.00 = $5,000.00

Example No. 2: Assuming the license revenues for the Program received by API of $20,000.00 or lower API shall pay Imagis as follows:

Casino ID Gross Revenue = 20% x $10,000.00 = $2,000.00

ID-2000 = 40% x $10,000.00 = $4,000.00

EXHIBIT 4.1

API TECHNOLOGIES, LLC
MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding ("MOU") is made and entered into on the date indicated below, (the "Effective Date") by and between API Technologies, LLC ("API") having its principal place of business at 205 Doty Street, Suite 202, Green Bay, WI 54301 and IMAGIS Technologies Inc. ("IMAGIS"), having its principal place of business at Suite 1300, 1075 West Georgia Street, Vancouver BC, Canada V6E 3C9, and

WITNESSETH:

WHEREAS, API and IMAGIS are Business Partners as per the Business Partner Agreement signed January 2, 2001, and;

WHEREAS, API and IMAGIS have contemporaneously herewith entered into that certain Software Assets Purchase and Assignment Agreement (the "Acquisition Agreement") wherein API shall purchase from and Imagis shall sell and assign to API a software program and related assets (the "Software Assets") used to catalogue and process data and imagery to identify individuals for use as a security device and application in the gaming industry (the "Gaming Industry") and;

WHEREAS, API wishes to negotiate with IMAGIS as to other uses of the Software Assets being purchased,

NOW, THEREFORE, in consideration for the execution of the Acquisition Agreement, and other good and valuable consideration, the parties hereto do hereby agree as follows:

1. To open and continue discussions on the topic of API's right to use the core product code being purchased as part of Casino-ID for other applications and other industries.

2. The use of this code would be for products other than those currently developed by or under development by IMAGIS.

3. The products developed by API using this code will not be marketed into the Law Enforcement market in which IMAGIS is currently involved.

4. These discussions will begin within fifteen (15) days after the completion of the transactions contemplated in the Acquisition Agreement and be completed within ninety (90) days thereafter. The parties agree to exert their

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best, reasonable efforts to consummate a definitive and binding agreement on the subject matter herein within the foregoing time period.

Signed for and on behalf of:

API Technologies, LLC	IMAGIS Technologies Inc.
Signature: "signed"	Signature: "signed"
Denis Nelson	Iain Drummond
Its Sole Member	President & CEO
November 1, 2001	November 1, 2001

EXHIBIT 99.1

PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995 - SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS

The Private Securities Litigation Reform Act of 1995 provides a safe-harbor for forward-looking statements made by public companies. This safe-harbor protects a company from securities law liability in connection with forward-looking statements if the company complies with the requirements of the safe-harbor. As a public company, the Company has relied and will continue to rely on the protection of the safe harbor in connection with its written and oral forward-looking statements.

When evaluating the Company's business, you should consider:

- all of the information in this quarterly report on Form 10-QSB;
- the risk factors described in the Company's Form 10-KSB filed with the Securities and Exchange Commission on March 21, 2002; and
- the risk factors described below.

RISK FACTORS

Although the Company believes that the expectations reflected in its forward-looking statements are reasonable, the Company cannot guarantee future results, levels of activity, performance or achievements or other future events. Moreover, neither the Company nor anyone else assumes responsibility for the accuracy or completeness of forward-looking statements. You should consider the Company's forward-looking statements in light of the following risk factors and other information in this quarterly report. If any of the risks described below occurs, the Company's business, results of operation and financial condition could differ from those projected in its forward-looking statements. The Company is under no duty to update any of its forward-looking statements after the date of the quarterly report. You should not place undue reliance on forward-looking statements.

Limited Operating History; History of Losses; Increased Expenses

The Company commenced operations in March 1998 and, therefore, has only a limited operating history upon which an evaluation of its business and prospects can be based. The Company and its predecessors incurred net losses of $3,020,704 and $3,010,031 in the years ended December 31, 2001 and December 31, 2000, respectively and incurred net losses of $647,888 and $625,909 in the quarters ended March 31, 2001 and 2000, respectively. The Company has never been profitable and there can be no assurance that, in the future, the Company will be profitable on a quarterly or annual basis. The Company plans to increase its operating expenses to expand its sales and marketing operations, fund greater levels of research and development, broaden its customer support capabilities and increase its administration resources. In view of the rapidly evolving nature of the Company's business and markets and limited operating history, the Company believes that period-to-period comparisons of financial results are not necessarily meaningful and should not be relied upon as an indication of future performance.

The Auditors Report on the Company's December 31, 2001 Consolidated Financial Statements includes additional comments by the auditor on Canada-United States reporting differences that indicate the financial statements are affected by conditions and events that cast substantial doubt on the Company's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

New Product Development

The Company expects that a significant portion of its future revenue will be derived from the sale of newly introduced products and from enhancement of existing products, such as CABS and ID-2000. The Company's success will depend in part upon its ability to enhance its current products and to install such products in end-user applications on a timely and cost-effective basis. In addition, the Company must

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develop new products that meet changing market conditions, including changing customer needs, new competitive product offerings and enhanced technology. There can be no assurance that the Company will be successful in developing and marketing on a timely and cost-effective basis, new products and enhancements that respond to such changing market conditions. If the Company is unable to anticipate or adequately respond on a timely or cost-effective basis to changing market conditions, to develop new software products and enhancements to existing products, to correct errors on a timely basis or to complete products currently under development, or if such new products or enhancements do not achieve market acceptance, the Company's business, financial condition, operating results and cash flows could be materially adversely affected. In light of the difficulties inherent in software development, the Company expects that it will experience delays in the completion and introduction of new software products.

Lengthy Sales Cycles

The purchase of a computerized arrest and booking system is often an enterprise-wide decision for prospective customers and requires the Company (directly or through its business partners) to engage in sales efforts over an extended period of time and to provide a significant level of education to prospective customers regarding the use and benefits of such systems. In addition, an installation generally requires approval of a governmental body such as municipal, county or state government, which can be a time-intensive process and require months before a decision to be made. Due in part to the significant impact that the application of CABS has on the operations of a business and the significant commitment of capital required by such a system, potential customers tend to be cautious in making acquisition decisions. As a result, the Company's products generally have a lengthy sales cycle ranging from three (3) to nine (9) months. Consequently, if sales forecast from a specific customer for a particular quarter are not realized in that quarter, the Company may not be able to generate revenue from alternative sources in time to compensate for the shortfall. The loss or delay of a large contract could have a material adverse effect on the Company's quarterly financial condition, operating results and cash flows, which may cause such results to be less than analysts' expectations. Moreover, to the extent that significant contracts are entered into and required to be performed earlier than expected, operating results for subsequent quarters may be adversely affected.

Dependence on a Small Number of Customers

The Company derives a substantial portion of its revenues, and it expects to continue to derive a substantial portion of its revenues in the near future, from sales to a limited number of customers, in particular the Alameda County, California police departments through Orion Scientific Systems, Inc. Unless and until the Company further diversifies and expands its customer base, the Company's success will depend significantly upon the timing and size of future purchase orders, if any, from its largest customers, as well as their product requirements, financial situation, and, in particular, the successful deployment of services using the Company's products. The loss of any one or more of these customers, significant changes in their product requirements, delays of significant orders could have a material adverse affect upon the Company's business, operating results and financial condition.

Dependence on Key Personnel

The Company's performance and future operating results are substantially dependent on the continued service and performance of its senior management and key technical and sales personnel. The Company intends to hire a number of additional technical and sales personnel. See "Note Regarding Forward-Looking Statements." Competition for such personnel is intense, and there can be no assurance that the Company can retain its key technical, sales and managerial employees or that it will be able to attract or retain highly qualified technical and managerial personnel in the future. The loss of the services of any of the Company's senior management or other key employees or the inability to attract and retain the necessary technical, sales and managerial personnel could have a material adverse effect upon its business, financial condition, operating results and cash flows. With the exception of Andy Amanovich, the Company's Chief Technology Officer, and David Lutes, the Company's Chief Engineer, the Company does not currently maintain "key man" insurance for any senior management or other key employees.

Dependence on Marketing Relationships

The Company's products are primarily marketed by its business partners. The Company's existing agreements with business partners are nonexclusive and may be terminated by either party without cause. Such organizations are not within the control of the Company, are not obligated to purchase products from the Company and may also represent and sell competing products. There can be no assurance that the Company's existing business partners will continue to provide the level of services and technical support necessary to provide a complete solution to its customers or that they will not emphasize their own or third-party products to the detriment of the Company's products. The loss of these business partners, the failure of such parties to perform under agreements with the Company or the inability of the Company to attract and retain new business with the technical, industry and application experience required to market the Company's products successfully could have a material adverse effect on the Company's business, financial condition, operating results and cash flows.

Additionally, with respect to most sales, the Company supplies products and services to a customer through a third-party supplier acting as a project manager or systems integrator. In such circumstances, the Company has a sub-contract to supply its products and services to the customer through the prime contractor. In these circumstances, the Company is at risk that situations may arise outside of its control that could lead to a delay, cost over-run or cancellation of the prime contract which could also result in a delay, cost over-run or cancellation of the Company's sub-contract. The failure of a third-party supplier to supply its products and services or perform its contractual obligations to the customer in a timely manner could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

Competition

The markets for arrest and booking systems, and facial recognition software are highly competitive. Numerous factors affect the Company's competitive position, including supplier competency, product functionality, performance and reliability of technology, depth and experience in distribution and operations, ease of implementation, rapid deployment, customer service and price.

The Company primarily competes in the arrest and booking systems market with ImageWare Software, Smith & Wesson and Spillman. The Company's primary competitors in the facial recognition software market with Miros (Trueface), Viisage Technology (Viisage Gallery) and Visionics (FaceIt).

Certain of the Company's competitors have substantially greater financial, technical, marketing and distribution resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and changing customer requirements, or to devote greater resources to the development and distribution of existing products. There can be no assurance that the Company will be able to compete successfully against current or future competitors or alliances of such competitors, or that competitive pressures faced by it will not materially adversely affect its business, financial condition, operating results and cash flows.

Proprietary Technology

The Company's success will be dependent upon its ability to protect its intellectual property rights. The Company relies principally upon a combination of copyright and trade secret laws, non-disclosure agreements and other contractual provisions to establish and maintain its rights. The source codes for the Company's products and technology are protected both as trade secrets and as unpublished copyrighted works. To date, the Company has not applied for any patents or trademarks. As part of its confidentiality procedures, the Company enters into nondisclosure and confidentiality agreements with each of its key employees, consultants, distributors, customers and corporate partners, to limit access to and distribution of its software, documentation and other proprietary information. There can be no assurance that the Company's efforts to protect its intellectual property rights will be successful. Despite the Company's efforts to protect its intellectual property rights, unauthorized third-parties, including competitors, may be

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able to copy or reverse engineer certain portions of the Company's software products, and use such copies to create competitive products.

Policing the unauthorized use of the Company's products is difficult, and, while the Company is unable to determine the extent to which piracy of its software products exists, software piracy can be expected to continue. In addition, the laws of certain countries in which the Company's products are or may be licensed do not protect its products and intellectual property rights to the same extent as do the laws of Canada and the United States. As a result, sales of products by the Company in such countries may increase the likelihood that its proprietary technology is infringed upon by unauthorized third-parties.

In addition, because third parties may attempt to develop similar technologies independently, the Company expects that software product developers will be increasingly subject to infringement claims as the number of products and competitors in the Company's industry segments grow and the functionality of products in different industry segments overlaps. There can be no assurance that third parties will not bring infringement claims (or claims for indemnification resulting from infringement claims) against the Company with respect to copyrights, trademarks, patents and other proprietary rights. Any such claims, whether with or without merit, could be time consuming, result in costly litigation and diversion of resources, cause product shipment delays or require the Company to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Company or at all. A claim of product infringement against the Company and failure or inability of the Company to license the infringed or similar technology could have a material adverse effect on its business, financial condition, operating results and cash flows.

Exchange Rate Fluctuations

Because the Company's reporting currency is the Canadian dollar, its operations outside Canada face additional risks, including fluctuating currency values and exchange rates, hard currency shortages and controls on currency exchange. The Company does not currently engage in hedging activities or enter into foreign currency contracts in an attempt to reduce the Company's exposure to foreign exchange risks. In addition, to the extent the Company has operations outside Canada, it is subject to the impact of foreign currency fluctuations and exchange rate charges on the Company's reporting in its financial statements of the results from such operations outside Canada. Since such financial statements are prepared utilizing Canadian dollars as the basis for presentation, results from operations outside Canada reported in the financial statements must be restated into Canadian dollars utilizing the appropriate foreign currency exchange rate, thereby subjecting such results to the impact of currency and exchange rate fluctuations.

Risk of Software Defects

Software products as complex as those offered by the Company frequently contain errors or defects, especially when first introduced or when new versions or enhancements are released. Despite product testing, the Company has in the past released products with defects in certain of its new versions after introduction and experienced delays or lost revenue during the period required to correct these errors. The Company regularly introduces new versions of its software. There can be no assurance that, despite testing by the Company and its customers, defects and errors will not be found in existing products or in new products, releases, versions or enhancements after commencement of commercial shipments. Any such defects and errors could result in adverse customer reactions, negative publicity regarding the Company and its products, harm to the Company's reputation, loss or delay in market acceptance or required product changes, any of which could have a material adverse effect upon its business, results of operations, financial condition and cash flows.

Product Liability

The license and support of products by the Company may entail the risk of exposure to product liability claims. A product liability claim brought against the Company or a third-party that the Company is required to indemnify, whether with or without merit, could have a material adverse effect on the Company's business, financial condition, operating results and cash flows.

Directors' and Officers' Involvement in Other Projects

Many of the officers and directors of the Company serve as directors, officers and/or employees of companies other than the Company. While the Company believes that such officers and directors will be devoting adequate time to effectively manage the Company, there can be no assurance that such other positions will not negatively impact an officer's or director's duties for the Company.

Strategic Alliance with Sanyo Semiconductor Company and Intacta Technologies Inc. to form Zixsys Inc. (formerly known as SecurityART Inc.)

The Company recently entered a strategic alliance agreement with Sanyo Semiconductor Company and Intacta Technologies Inc. to form Zixsys Inc. (formerly known as SecurityART Inc.), an entity that will integrate the hardware and software technologies of all three companies and thereafter market security products for use in airports, buildings, laboratories, document authentication and verification for passports, visas and ID cards. There can be no assurance that this relationship or the integration of these technologies will prove to be successful in the future or will result in any material revenue for the Company.

Volatility of the Company's Share Price

The Company's share price has fluctuated substantially since the Company's common shares were listed for trading on the Canadian Venture Exchange ("CDNX)" and quoted on the Over-The-Counter Bulletin Board ("OTCBB"). The trading price of the Company's common shares is subject to significant fluctuations in response to variations in quarterly operating results, the gain or loss of significant orders, announcements of technological innovations, strategic alliances or new products by the Company or its competirors, general conditions in the securities industries and other events or factors. In addition, the stock market in general has experienced extreme price and volume fluctuations that have affected the market price for many companies in industries similar or related to the Company and have been unrelated to the operating performance of these companies. These market fluctuations may adversely affect the market price of the Company's common shares.

Certain Shareholders May Exercise Control Over Matters Voted Upon by the Company's Shareholders

Certain of the Company's officers, directors and entities affiliated with the Company together beneficially owned a significant portion of the Company's outstanding common shares as of December 31, 2001. While these shareholders do not hold a majority of the Company's outstanding common shares, they will be able to exercise significant influence over matters requiring shareholder approval, including the election of directors and the approval of mergers, consolidations and sales of the Company's assets. This may prevent or discourage tender offers for the Company's common shares.

BC FORM 51-901F

QUARTERLY REPORT

Incorporated as part of: Schedules B & C

ISSUER DETAILS:

Name of Issuer	**IMAGIS TECHNOLOGIES INC.**
For Quarter Ended	March 31, 2002
Date of Report	May 9, 2002
Issuer Address	1300 - 1075 West Georgia Street Vancouver, British Columbia V6E 3C9
Issuer Fax Number	(604) 684-4601
Issuer Telephone Number	(604) 684-2449
Contact Name	Sandra Buschau
Contact Position	Vice President, Investor Relations
Contact Telephone Number	(604) 684-2449
Contact Email Address	sandy@imagistechnologies.com
Web Site Address	www.imagistechnologies.com

CERTIFICATE

THE THREE SCHEDULES REQUIRED TO COMPLETE THIS REPORT ARE ATTACHED AND THE DISCLOSURE CONTAINED THEREIN HAS BEEN APPROVED BY THE BOARD OF DIRECTORS. A COPY OF THIS REPORT WILL BE PROVIDED TO ANY SHAREHOLDER WHO REQUESTS IT.

Iain Drummond	*"Iain Drummond"*	02/05/09
Name of Director	Sign (typed)	Date Signed (YY/MM/DD)
Altaf Nazerali	*"Altaf Nazerali"*	02/05/09
Name of Director	Sign (typed)	Date Signed (YY/MM/DD)

SCHEDULE B: SUPPLEMENTARY INFORMATION

1. Analysis of expenses:

a) Cost of materials

Supplies	10,267
Customs, duty and freight	22
Total	$10,289

b) Administration expenses

Bank charges and interest, net	2,066
Consulting fees	96,792
Foreign exchange	19,189
Office and rent	198,922
Management fees	31,400
Salaries and benefits	58,602
Professional fees	66,239
Shareholder relations and regulatory filings	278,821
Stock-based compensation	145,031
Travel and entertainment	100,116
Total	$997,178

2. *Related party transactions:*

Wages and benefits for three officers	$80,545
Management fees for one director and two officers	47,900
Total	$128,445

3. *Summary of securities issued and options granted during the period ended March 31, 2002*

a) Summary of securities issued during the period:

Date of Issue	Type of Security	Type of Issue	Number or Amount	Price	Total Proceeds
01/04/02	Common	Option exercise	45,000	$1.00	$45,000
01/25/02	Common	Option exercise	13,500	$1.00	$13,500
01/29/02	Common	Option exercise	16,166	$1.00	$16,166
01/31/02	Common	Option exercise	25,833	$1.00	$25,833
02/04/02	Common	Warrant exercise	17,850	$1.10	$19,635
02/07/02	Common	Option exercise	5,000	$1.00	$5,000
02/08/02	Common	Bonus shares	37,500	$2.10	$78,750
02/19/02	Common	Option exercise	7,666	$1.00	$7,666
02/21/02	Common	Option exercise	4,000	$1.00	$4,000
02/26/02	Common	Warrant conversion	70,000	$2.17	$151,900
02/28/02	Common	Option exercise	13,500	$1.00	$13,500
03/11/02	Common	Warrant exercise	35,000	$2.55	$89,250
03/11/02	Common	Warrant exercise	92,077	$2.17	$199,808
03/11/02	Common	Warrant exercise	4,150	$1.10	$4,565

03/11/02	Common	Warrant conversion	150,816	$2.17	$327,271
03/19/02	Common	Option exercise	2,500	$1.50	$3,750
03/25/02	Common	Warrant exercise	35,058	$2.17	$76,076

3. Summary of securities issued and options granted during the period ended March 31, 2002, continued

b) Options/warrants granted during the period:

Date of Grant	Type of Issue	Number	Name	Exercise Price	Expiry Date
01/18/02	Warrant	50,000	Pembridge Venture Partners	$2.20	01/18/04
01/31/02	Option	10,000	Employee	$2.24	01/31/07
02/08/02	Option	100,000	Consultant	$2.97	02/08/04
03/01/02	Option	50,000	Employees	$3.40	03/01/07
03/04/02	Option	30,000	Employees	$3.40	03/04/07
03/04/02	Option	250,000	Roy Davidson Trivett	$3.40	03/04/07

4. Summary of securities as at March 31, 2002

a) Authorized share capital: 100,000,000 common shares without par value

b) Number and recorded value for shares issued and outstanding:

Issued and outstanding	No. of shares	Amount
Balance March 31, 2002	17,324,968	$11,940,289

c) Description of options, warrants and convertible securities outstanding:

Options

Number of common shares issuable	Exercise Price	Date of Expiry
230,000	$0.30	July 6, 2003

1,052,999	$1.00	Various to August 30, 2006
977,500	$1.50 to $2.90	Various to December 30, 2005
2,260,499		

Warrants

Number of common shares issuable	Exercise Price	Date of Expiry
266,666	$1.25	June 25, 2002
133,334	$1.25	February 23, 2003
50,000	$4.00	June 16, 2002
252,000	$1.10	Various to May 6, 2003
114,666	$2.55	November 9, 2002
678,840	$2.55	Subject to qualification
15,633	$2.17	November 9, 2002
50,000	$2.20	June 18, 2004
1,561,139		

4. *Summary of securities as at March 31, 2002, continued*

c) Description of options, warrants and convertible securities outstanding:

Convertible Securities

On November 9, 2001, 1,427,682 special warrants were sold at a price of $2.17 per special warrant, each of which entitles the holder, upon exercise and without payment of further consideration, to acquire one common share of the Company and one-half of one common share purchase warrant (the "Warrants") of the Company. Each whole warrant will entitle the holder to purchase one common share of the Company at a price of $2.55 for a period of one year from the date the underlying shares are qualified for resale.

During the period, 551,037 special warrants were converted into one common share and 275,518 warrants. 35,000 of the related warrants were exercised for gross proceeds to the Company of $89,250.

d) Total Number of Shares in Escrow

The 266,669 shares remaining in escrow were released on February 23, 2002.

5. List of directors and officers as of May 9, 2002:

Oliver "Buck" Revell - Chairman and a Director
Iain Drummond - President, Chief Executive Officer and a Director
Ross Wilmot - Vice President, Finance and Chief Financial Officer
Sandra Buschau - Vice President, Investor Relations
Altaf Nazerali - Director
Robert Gordon - Director
Rory Godinho - Secretary and a Director
Frederick Clarke - Director
Andy Amanovich - Chief Technology Officer
Roy Trivett - Director

SCHEDULE C: MANAGEMENT DISCUSSION

DESCRIPTION OF BUSINESS

Forward-Looking Statements:

Statements in this Quarterly Report on Form 10-QSB, including, but not limited to, those concerning Imagis Technologies Inc.'s (the "Company") expectations of results of the Company's operations in future periods, the amount and timing of revenues and earnings in future periods, future sales, gross profits, sales and marketing expenses, technical services expenses, technology development expenses, administration expenses, product introductions and cash requirements include certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. As such, the Company's actual results may vary materially from expectations as a result of certain factors including, but not limited to, the failure of the market for the Company's products to grow as anticipated; the success of certain strategic alliances among the Company and certain third parties; product pricing or other initiatives of the Company's competitors; the possibility that the Company's other customers defer purchasing decisions due to economic or other conditions or will purchase products offered by the Company's competitors; product development, product pricing or other initiatives of the Company's competitors; variations in the level of orders which can be affected by general economic conditions and in the markets served by the Company's customers; international economic and political climates; difficulties or delays in the functionality or performance of the Company's products; the Company's timing of future product releases or improvements; the Company's failure to respond adequately to either changes in technology or customer preferences; changes in pricing; the Company's ability to manage growth; risk of nonpayment of accounts receivable; changes in budgeted costs and the factors listed in Exhibit 99.1 to this Quarterly Report, which is herein incorporated by reference.

In some cases, you can identify forward-looking statements by the Company's use of words such as "may," "will," "should," "could," "expect," "plan," "intend," "anticipate," "believe," "estimate," "predict," "potential" or "continue" or the negative or other variations of these words, or other comparable words or phrases.

Although the Company believes the expectations reflected in its forward-looking statements are reasonable, it cannot guarantee future results, levels of activity, performance or achievements or other future events. The Company is under no duty to update any of our forward-looking statements after the date of this filing. You should not place undue reliance on forward-looking statements.

Unless otherwise indicated, all references herein are to Canadian Dollars.

About Imagis

Imagis Technologies Inc. is a developer and marketer of software applications and advanced biometric facial recognition software solutions both as products and as a Software Development Kit. These applications provide a range of security solutions in various industry sectors including airports, law enforcement, customs, immigration and other government agencies, and gaming. The Company currently has well over a hundred installations, including Toronto's Pearson International Airport, the world's 16th busiest airport. The Company markets its products through a network of business partners located in North America, Asia, Europe and Latin America, and has installations in the US, Canada, Mexico and the UK.

<u>ID-2000 - Image Detection and Biometric Facial Recognition</u>

This software technology has enabled the Company to enter the biometric market.

ID-2000 is a facial recognition software system designed for the law enforcement, airport security, gaming and security industries that captures an offender's image, typically via a video camera, and then creates a biometric code that can be compared to other encoded images in a database. ID-2000 allows an individual in a database to be identified in seconds, using only an image or photograph as the search criterion. Matching records will be displayed as a list, together with their associated thumbnail images. From this, any record can be selected and full details, together with a full size image, will be displayed. Extensive linkages enable the database to be mined to display details, such as aliases, known associates and vehicles, as well as images of other distinguishing features, such as marks, scars and tattoos. Where appropriate, details such as previous crimes or gang memberships can also be displayed. ID-2000 also works with Casino-ID and Envisage for use in the gaming and security sectors.

ID-2000 is also available as a Software Development Kit, or SDK, which is designed to enable developers at the Company's business partners to integrate its facial recognition capabilities into their own applications.

In addition, the Company has adapted its facial recognition software to include the identification of non-facial objects in background imagery and personally identifiable markings, such as tattoos. The biometric solution purchased by the UK's National Crime Squad will be used to crack down on international online child pornography. The ability of law enforcement agencies to identify background imagery, as well as victims and perpetrators, is an important factor in preparing for and solving missing persons investigations.

Secure-ID (Airport Security)

Secure-ID is designed to use ID-2000 to scan the faces of travellers entering or leaving an airport, isolate individual faces, encode them and match them against a database of serious criminals or known terrorists. A variation on the system is already in use at Toronto's Pearson International Airport, where the Royal Canadian Mounted Police have successfully used it to identify wanted individuals trying to enter Canada.

Secure-ID uses standard surveillance cameras and requires no manual intervention. While it is possible to identify individuals in a crowd, cameras should be positioned where they can obtain clear images, such as the check-in desk, metal detector, gate and so on. Where there is a possible match, a monitor in the security office will display the image of the passenger, together with the image of the possible match in the database. The security officer at the screen will visually compare the two images and, if they match, take appropriate action.

CABS - Computerized Arrest & Booking System

CABS is an integrated information and imaging system developed for the Royal Canadian Mounted Police ("RCMP") and other law enforcement agencies. CABS currently has separate modules for offenders, non-offenders, staff and evidence. The offender module automates booking activities and reports, the production of mugshots and the generation of line-ups. Pictures of criminal suspects, as well as their marks, scars, tattoos and fingerprints, are all captured in the offender module of CABS. The non-offender module provides an electronic database of persons, such as teachers and day-care providers, who are required to be registered with the police. The staff module provides for the creation and management of staff identification. The evidence module provides for electronic management of photographs of evidence obtained in connection with a criminal arrest.

The CABS system is designed to collect the same information that would be recorded manually during a traditional booking situation and to store all of the information and photo images that are required in connection with arresting and prisoner reports. Compared to manual bookings, CABS offers the following advantages:

- captures more information than manual booking systems and allows the information to be retrieved quickly from multiple locations;
- allows offender information to be used for multiple inquiries and report generating purposes;
- generates automated line-ups based on user-specified criteria;
- provides a variety of required reports and other documents with the offender's photograph;
- allows the collection and retrieval of photographs of the offender, including identifying physical marks such as tattoos, scars and other markings;
- creates a database of offender information for access in the case of subsequent arrests or for generation of suspect lists;
- can be integrated with livescan electronic fingerprinting systems and with other computer software systems; and
- integrates with key dispatch systems, digital composite drawing programs and digital fingerprint systems to provide a complete police information management system.

CABS advanced data sharing capabilities allow different authorities to access decentralised information. The Company has recently implemented its first regional data sharing system. This allows RCMP detachments to share live information entered by their individual detachments. The major advantage of this data sharing system is that it allows one detachment to search a larger database containing offender information when booking a suspect, increasing the probability that the booking officer will discover prior arrests for the same individual. The RCMP does not retain any ownership interest or residual rights over the CABS system.

Overview

Revenue for software and services has historically accounted for a substantial portion of the Company's revenue. Typically, the Company enters into a fixed price contract with a customer for the licensing of selected software products and the provision of specific services. The Company generally recognizes total revenue for software and services associated with a contract using percentage of completion method based on the total costs incurred over the total estimated costs to complete the contract.

The Company's revenue is dependent, in large part, on significant contracts from a limited number of customers. As a result, any substantial delay in the Company's completion of a contract, the inability of the Company to obtain new contracts or the cancellation of an existing contract by a customer could have a material adverse effect on the Company's results of operations. The loss of certain contracts could have a material adverse effect on the Company's business, financial condition, operating results and cash flows. As a result of these and other factors, the Company's results of operations have fluctuated in the past and may continue to fluctuate from period-to-period.

Recent events have increased awareness of and interest in products that have law enforcement or other security applications. There can be no assurance, however, that such trends will continue or will result in increased sales of the Company's products and services.

Comparison of results of operations for the three months ended March 31, 2002 and 2001:

Revenues

The Company's total revenues increased 200% to $1,061,865 for the first quarter ended March 31, 2002 over the comparable prior year first quarter level of $353,836. The higher revenues were directly attributable to higher software sales revenues while other revenues declined in the quarter from the prior year amounts.

Sales of the Company's software products rose 410% to $985,954 in the first quarter of this year as compared to $193,045 in 2001. The large gain in software sales revenues this year arose primarily from the inclusion of approximately 60% of the revenues earned to March 31, 2002, through the Company's U.K. business partner, Serco PLC, as a result of a significant order.

Support and services revenues for the first quarter of 2002, at $59,830, were 48% lower than those in the comparable quarter in 2001 of $114,696. The lower 2002 level masks a 14% gain in annual support contract revenues this year over the 2001 first quarter amount. The overall decline resulted from reduced revenues derived from contract services this year, and is solely attributable to the completion of a single special contract that the Company commenced in 2000 directly for BCIT, rather than through a partner, which concluded in mid-2001. As stated last year, the Company is not seeking such contract work but intends to remain focused on both development and more profitable sales of its software products.

Other revenues were $16,081 for the first quarter of 2002, down from $46,095 earned in the first quarter of 2001. These revenues are earned from the sale of components, which are provided in conjunction with the installation or ongoing support of the Company's products, and the level of sales varies from period to period.

Operating costs

Operating costs totaled $2,201,367 for the first quarter in 2002, which is 120% higher than the total 2001 first quarter expenditures of $1,001,724. The higher costs over the prior year first quarter resulted from increases in staff in most functions, greater travel for both sales and marketing and technical support, and exceptional corporate costs included in the administration category. Operating costs include cost of materials, sales and marketing, technical Services, technology development, administration, interest and amortization.

Costs of materials and services

The costs of materials and services are incurred in conjunction with the support services that the Company provides to customers. These costs amounted to $10,289 in the first quarter of 2002, down 70% from the costs incurred in the first quarter of 2001 of $33,848.

Sales and marketing

Sales and marketing costs for the first quarter of 2002, at $557,748, were 114% higher than the comparable period in 2001 of $260,422. The increase is attributable to higher costs incurred for new sales and marketing representatives in the US, Europe and the Far East, all engaged on a contract basis in the past few months. There were no sales and marketing representatives on contract prior to this time and hence no comparable 2001 costs. In addition, travel and trade show costs for both staff and representatives rose 195% due to the increase in the number of staff members traveling and overall increase in sales and marketing activity this year over that in the prior year when funds were limited. The Company intends to further increase its sales and marketing team during the year and, therefore, expects that quarterly sales and marketing costs will increase in future quarters as a result.

Technical services

Costs for the technical services group were $239,397 in the first quarter of this year, which is 37% higher than the comparable 2001 first quarter costs of $175,018. The 2002 increase reflects primarily a 51% increase in travel costs in support of the installation in Alameda County, California ("Alameda"), necessitated by the technical aspects of the application. The technical services group generally assists the Company's strategic partners in their installation of its products and also provides clients with any technical support that they may require under annual support contracts. These costs primarily include expenses related to salaries, facilities and travel. While the function costs have increased over the prior year, costs for future quarters are expected to be in line with the first quarter level.

Technology development

Technology development costs for the first quarter ended March 31, 2002 were $369,706, which is 35% higher than the 2001 comparable costs of $273,643. The increase over the prior period reflects a number of additions to staff and higher travel costs incurred during the quarter. The Company added to its development staff throughout 2001 and continues to increase its development group capability. During the quarter, the group finalized for commercial release Version 8 of its ID-2000 facial recognition software, and is providing special support and enhancements for both the Alameda and National Crime Squad applications. Technology development costs are expected to remain at this level throughout the year.

Administration

Administration costs for the first quarter of 2002 were $997,178, which is 349% higher than for the comparable quarter in 2001 of $221,985. Administrative costs include staff salaries and related benefits and travel, professional fees, facility and support costs, shareholder, regulatory and investor relations costs and special financial advisory costs incurred related to the Company's corporate strategies and a special corporate privatization proposal received in the quarter.

While staff costs remained comparable to those of the prior year, generally all other categories were higher due the increased level of corporate activity this year. Facilities costs rose approximately 50%, professional fees rose over 300%, and shareholder, regulatory and investor relations costs rose approximately 200%, the increase primarily reflecting the Company's continued corporate branding efforts worldwide. The Company's financial advisory services costs incurred in the 2002 first quarter aggregated approximately $208,000, including a non-cash component with an imputed value of $78,750, for 37,500 common shares granted as partial compensation to one of the Company's advisors. No comparable financial advisory costs were incurred in the 2001 first quarter. The Company's administrative costs are expected to decline to some degree from the first quarter level since such one-time costs as the non-cash share issuance will not recur. Additionally, the Company incurred non-cash costs in 2002 of $145,031 for stock-based compensation as a result of stock options and warrants that were issued as compensation to non-employees. There were no comparable costs incurred in the 2001 first quarter.

Interest and amortization

Interest was earned this year on the additional funds on deposit amounting to $4,827 whereas in the prior comparable quarter, the Company incurred an expense of $32,032 related to outstanding advances that were liquidated late in 2001. Amortization in the first quarter of 2002 amounted to $31,876 as compared to $4,776 for the first quarter of 2001. The increase in amortization expense reflects recent purchasing of equipment whereas in the past, the Company leased most of its equipment to minimize cash outflows from month to month and software purchases that were expensed in the period.

Net loss for the period

Overall, the Company incurred a net loss for the 2002 first quarter of $1,139,502 or $.07 per share, which is 75% higher than the net loss incurred in the first quarter of 2001 of $647,888 or $.05 per share. While revenues rose 200% this period, significantly higher operating costs incurred in virtually all categories to build the Company aggressively served to offset the revenue gain.

SUBSEQUENT EVENTS

The Company has received an aggregate of $94,975 in respect of 43,500 warrants that were exercised at various prices up to May 7, 2002.

An additional 210,208 special warrants were converted up to May 7, 2002, resulting in the issuance of an additional 105,104 warrants exercisable at a price of $2.55 up to November 9, 2002.

(a) On April 2, 2002 50,000 special warrants were converted to common shares at a deemed price of $2.17 per special warrant for total deemed proceeds to the Company of $108,500.

(b) On April 5, 2002 160,208 special warrants were converted to common shares at a deemed price of $2.17 per special warrant for total deemed proceeds to the Company of $347,651.

FINANCINGS, PRINCIPAL PURPOSES AND MILESTONES

On November 9, 2001, the Company completed a brokered private placement of $3,098,070 and a non-brokered private placement of $497,650.

Under the brokered private placement, the Company issued 1,427,682 special warrants at a price of $2.17 per special warrant, with each special warrant being convertible into one common share and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder thereof to acquire an additional common share for a period of one year from the date the underlying shares are qualified for resale (the "Qualification Date") at a price of $2.55 per share. Thomson Kernaghan & Co. ("Thomson Kernaghan) placed 920,770 special warrants and Canaccord Capital Corporation ("Canaccord") placed 506,912 special warrants.

Thomson Kernaghan and Canaccord were paid a cash commission of 8% of the gross proceeds received by the Company from the sale of the special warrants and has issued agent's compensation options entitling them to collectively purchase 142,768 common shares at a price of $2.17 per share for a period of one year following the Qualification Date.

Under the non-brokered private placement, the Company issued 229,332 units at a price of $2.17 per unit, with each unit comprised of one common share and one half of a warrant. Each whole warrant entitles the holder thereof to acquire an additional common share at a price of $2.55 per share for a term expiring on November 9, 2002.

The Company intends to use the proceeds of the offering to expand its sales and marketing activities, to add additional developers to its research and development department and to accelerate its business opportunities in the law enforcement, airport and security markets.

LIQUIDITY AND SOLVENCY

The Company's liquidity improved significantly in 2001, with its cash on hand increasing from an opening position of $59,497 to the closing balance at December 31, 2001 of $200,659 in cash and short-term investments amounting to $2,560,000. There were no short-term investments in 2000. The increase was realized through the exercise of the Company's options and warrants, and the completion of three financings in the year. Funds derived in the year from the exercise of options amounted to $395,834 and from the exercise of warrants amounted to $1,523,700.

With respect to financing, in its first round, a private placement, the Company issued 1,501,000 units priced at $1 per unit, each unit convertible into one common share and one full warrant convertible into another common share at a price of $1.10. This yielded proceeds of $1,501,000 to the Company. The second financing, completed early in the fourth quarter, was also a unit private placement, in this case for the issue of 229,332 units priced at $2.17 per unit. Each unit consisted of one common share and a half warrant, with two half warrants converting into one common share at an exercise price of $2.55, and this netted cash of $497,650 to the Company. These two financings provided an aggregate cash infusion to the Company of $1,998,650. The third financing was completed shortly after the second and involved the sale of 1,427,682 special warrants also priced at $2.17 per special warrant, and yielded net proceeds of $2,822,061. Each special warrant is convertible into one common share and one half warrant on similar terms to those of the private placement unit and at a price of $2.55. In total, during 2001 the Company raised approximately $6.7 million.

These new funds were used primarily to sustain the Company's operating loss for the year of $3,020,704. With the stronger cash position, the Company was also able to extinguish its related party loans amounting to $1,072,317, to make short-term deposits amounting to $2,560,000 and to acquire additional computer equipment at a cost of $24,772. After the loss for the year adjusted for non-cash items and these disbursements, the Company had a net gain in cash in the year of $141,162 and when added to the cash on hand at the beginning of the year of $59,497, cash at December 31, 2001 available for future operations, exclusive of the additional funds on deposit of $2,560,000, aggregated the above-noted amount of $200,659.

At present with this operating capital and two major outstanding order commitments, management believes the Company is capable of sustaining its operations throughout the remainder of the year with no further financing requirements. However as noted above, its business plan for 2002 anticipates continuing product development work in both its traditional biometric applications and in new development of non-biometric applications, In addition, the Company recently identified other areas in discussions with its newest strategic partner, the Sanyo Semiconductor Company, and consequently sees the need to continue to add development staff.

From a marketing perspective, a number of international opportunities have arisen and the Company's plan calls for added emphasis in advancing awareness of its products internationally, and additional sales and marketing staff are planned for this undertaking. Taking into account these various new opportunities, the Company may consider additional financing this year to funds its 2002 operations.