



**British Columbia  
Securities Commission**

**QUARTERLY AND YEAR END REPORT  
BC FORM 51-901F (previously Form 61)**

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INCORPORATED AS PART OF:

  X   Schedule A

           Schedule B  
(place X in appropriate category)

**ISSUER DETAILS**

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT YY/MM/DD
<b>QHR TECHNOLOGIES INC</b>	<b>December 31, 2002</b>	<b>03/05/16</b>

ISSUER'S ADDRESS **1632 DICKSON AVENUE, SUITE 210**

CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.
<b>Kelowna</b>	<b>BC</b>	<b>V1Y 7T2</b>	<b>(250) 717-5266</b>	<b>(250) 763-3122</b>

CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
<b>Al Hildebrandt</b>	<b>Director</b>	<b>(250) 979-1701</b>

CONTACT E-MAIL ADDRESS	WEB SITE ADDRESS
<b>ahildebrandt@qhrsoftware.com</b>	<b>qhrsoftware.com</b>

**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.

<b>"Al Hildebrandt"</b>	<b>AL HILDEBRANDT</b>	<b>03/05/16</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

<b>"Frank Estergaard"</b>	<b>FRANK ESTERGAARD</b>	<b>03/05/16</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

(Electronic signatures should be entered in "quotations")

**QHR TECHNOLOGIES INC.**

**REPORT AND CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2002 and 2001

## AUDITORS' REPORT

To the Shareholders,  
QHR Technologies Inc.

We have audited the consolidated balance sheets of QHR Technologies Inc. as at December 31, 2002 and 2001 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform and audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2002 and 2001 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis.

Vancouver, Canada  
May 9, 2003

"AMISANO HANSON"  
Chartered Accountants

**QHR TECHNOLOGIES INC.**  
**CONSOLIDATED BALANCE SHEETS**  
December 31, 2002 and 2001

	<u>ASSETS</u>	<u>2002</u>	<u>2001</u>
Current			
Cash		\$ 150,287	\$ 21,898
Accounts receivable		292,879	167,601
Prepaid expenses		39,642	-
		482,808	189,499
Capital assets – Note 3		45,305	51,481
Goodwill – Note 4		-	74,994
		\$ 528,113	\$ 315,974
	<u>LIABILITIES</u>		
Current			
Bank loan payable – Notes 6 and 12		\$ -	\$ 45,000
Accounts payable – Notes 5 and 12		224,214	656,259
Promissory note payable – Note 7		-	78,875
Due to related parties – Note 5		85,019	166,948
Deferred revenue		845,378	375,024
		1,154,611	1,322,106
	<u>SHAREHOLDERS' DEFICIENCY</u>		
Share capital – Note 8		3,672,634	3,572,634
Contributed surplus		11	11
Deficit		( 4,299,143)	( 4,578,777)
		( 626,498)	( 1,006,132)
		\$ 528,113	\$ 315,974

Nature and Continuance of Operations – Note 1  
 Commitments – Notes 8 and 12  
 Subsequent Events – Note 12

APPROVED BY THE DIRECTORS:

*“Al Hildebrandt”*

\_\_\_\_\_, Director

*“Frank Estergaard”*

\_\_\_\_\_, Director

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
for the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
Revenue		
Software license fees	\$ 1,377,323	\$ 434,396
Software services	1,055,329	788,054
Consulting services and other	132,765	128,600
	<hr/>	<hr/>
	2,565,417	1,351,050
	<hr/>	<hr/>
Operating Expenses		
Sales and marketing – Schedule 1	426,370	364,937
Service delivery – Schedule 2	513,770	531,965
Administrative expenses – Schedule 3	691,010	652,459
Product management and development – Schedule 4	590,018	736,974
	<hr/>	<hr/>
	2,221,168	2,286,335
	<hr/>	<hr/>
Earnings (loss) before other items	344,249	( 935,285)
Other items:		
Write-down of acquisition goodwill – Note 4	( 74,994)	-
Amortization of acquisition goodwill – Note 4	-	( 149,981)
Loss on sale of capital assets	-	( 1,814)
Write-off of capital assets	( 14,291)	-
Gain on settlement of accounts payable	24,670	-
	<hr/>	<hr/>
Net earnings (loss) for the year	279,634	( 1,087,080)
Deficit, beginning of the year	( 4,578,777)	( 3,491,697)
	<hr/>	<hr/>
Deficit, end of the year	\$ ( 4,299,143)	\$ ( 4,578,777)
	<hr/>	<hr/>
Basic and diluted earnings (loss) per share	\$ 0.02	\$ ( 0.09)
	<hr/>	<hr/>
Weighted average number of shares outstanding	13,077,882	12,117,881
	<hr/>	<hr/>

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>Operating Activities</b>		
Net earnings (loss) for the year	\$ 279,634	\$ ( 1,087,080)
Charges to income not affecting cash:		
Amortization of capital assets	27,903	34,658
Write-down of acquisition goodwill	74,994	-
Amortization of acquisition goodwill	-	149,981
Loss on sale of capital assets	-	1,814
Write-off of capital assets	14,291	-
Gain on write-off of accounts payable	( 24,670)	-
	<u>372,152</u>	<u>( 900,627)</u>
Changes in non-cash working capital items related to operations:		
Accounts receivable	( 125,278)	( 115,342)
Prepaid expenses	( 39,642)	24,782
Accounts payable	( 407,375)	355,452
Deferred revenue	470,354	27,225
	<u>270,211</u>	<u>( 608,510)</u>
<b>Investing Activity</b>		
Acquisition of capital assets	( 36,018)	( 4,593)
<b>Financing Activities</b>		
Bank loan repayment	( 45,000)	( 17,500)
Promissory note payable (repayment)	( 78,875)	78,875
Repayment of advances from related parties	( 81,929)	( 93,181)
Proceeds from issuance of common shares	-	750,000
Proceeds from issuance of convertible debenture	100,000	-
	<u>( 105,804)</u>	<u>718,194</u>
Increase in cash during the year	128,389	105,091
Cash (bank indebtedness), beginning of the year	21,898	( 83,193)
Cash, end of the year	<u>\$ 150,287</u>	<u>\$ 21,898</u>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for:		
Interest	\$ 20,266	\$ 52,544
Income taxes	<u>\$ -</u>	<u>\$ -</u>

Non-cash Transactions – Note 9

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**CONSOLIDATED OPERATING EXPENSES**  
for the years ended December 31, 2002 and 2001

	<u>2002</u>	<u>2001</u>
<b>Schedule 1 – SALES AND MARKETING</b>		
Bad debts	\$ 94,379	\$ -
Wages and benefits	210,749	257,086
Other	121,242	107,851
	<u>426,370</u>	<u>364,937</u>
 <b>Schedule 2 – SERVICE DELIVERY</b>		
Wages and benefits	\$ 382,946	\$ 384,533
Other	130,824	147,432
	<u>513,770</u>	<u>531,965</u>
 <b>Schedule 3 – ADMINISTRATIVE EXPENSES</b>		
Accounting and audit fees	\$ 43,259	\$ 46,747
Amortization	27,903	34,657
Consulting fees – Note 5	57,131	110,241
Directors fees – Note 5	9,000	-
Interest and bank charges – Note 5	20,266	52,544
Legal fees	33,525	36,822
Management fees – Note 5	252,000	179,000
Office and miscellaneous	110,260	54,002
Rent	63,799	53,235
Travel – Note 5	5,149	3,826
Transfer agent fees	12,637	6,405
Wages and benefits – Note 5	56,081	74,980
	<u>691,010</u>	<u>652,459</u>
 <b>Schedule 4 – PRODUCT MANAGEMENT AND DEVELOPMENT</b>		
Product development fee	\$ -	\$ 100,000
Wages and benefits	536,024	604,179
Other	53,994	32,795
	<u>590,018</u>	<u>736,974</u>

SEE ACCOMPANYING NOTES

**QHR TECHNOLOGIES INC.**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2002 and 2001

Note 1 Nature and Continuance of Operations

The Company is a public company whose shares are traded on the TSX Venture Exchange. The Company's principal business is the development and delivery of fully integrated software technology that will automate human resources management.

These financial statements have been prepared on a going concern basis. As at December 31, 2002, the Company has a working capital deficiency of \$671,803 and has accumulated losses of \$4,299,143 since inception. Its ability to continue as a going concern is dependent upon the ability of the Company to maintain profitable operations in the future and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due.

Note 2 Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Canada. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates which have been made using careful judgement. Actual results may differ from these estimates.

The consolidated financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Principles of Consolidation

These consolidated financial statements include the accounts of QHR Technologies Inc. and its wholly-owned subsidiary QHR Software Group Inc., both company's incorporated under the laws of the Province of British Columbia. This consolidation has been accounted for using the purchase method of accounting, as a reverse take-over. All significant inter-company transactions and balances have been eliminated.

b) Changes in Accounting Policy

Effective January 1, 2002, the Company adopted the new recommendations of the CICA relating to goodwill and other intangible assets. Accordingly, the Company ceased amortization of goodwill on January 1, 2002. Goodwill was tested for impairment at December 31, 2002. It was determined that there was a goodwill impairment amount of \$74,994 and at December 31, 2002 the Company wrote-off all acquisition goodwill.

In accordance with the new requirements, net earnings (loss) for prior periods presented is to be adjusted to exclude amortization expense (including any related tax effects) recognized in those periods related to goodwill. The corresponding per share amounts are also required to be adjusted.

Note 2      Significant Accounting Policies – (cont'd)

b) Changes in Accounting Policy – (cont'd)

	<u>2002</u>	<u>2001</u>
Net earnings (loss)		
As reported	\$ 279,634	\$ (1,087,080)
Add back goodwill amortization	-	149,981
As adjusted	<u>\$ 279,634</u>	<u>\$ ( 937,099)</u>
Basic and diluted earnings (loss) per common share		
As reported	\$ 0.02	\$ ( 0.09)
Add back goodwill amortization	-	0.01
As adjusted	<u>\$ 0.02</u>	<u>\$ ( 0.08)</u>

c) Capital Assets and Amortization

Capital assets are recorded at cost. The Company provides for amortization using the straight-line method over the following number of years:

Furniture and fixtures	10 years
Office equipment	5 years
Computer hardware	3 years
Computer software	3 years
Leasehold improvements	5 years

d) Fair Value of Financial Instruments

The carrying value of cash, accounts receivable, bank loan payable, accounts payable, promissory note payable and due to related parties approximate fair value because of the short maturity of those instruments. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

e) Revenue Recognition

The Company recognizes revenue from software licensing pursuant to the terms of its software licensing agreements once its contractual obligations have been fulfilled, the customer acceptance provisions have been satisfied and collection is reasonably assured.

The Company recognizes revenue derived from the sale of support and maintenance service contracts on a straight-line basis over the term of the contract. The unearned portion of the contract is shown as deferred revenue. .

The Company recognizes all other revenue including implementation and consulting fees as services are rendered.

Note 2      Significant Accounting Policies – (cont'd)

f) Development Costs

Development costs related to software products developed for sale are expensed as incurred unless they meet the criteria for deferral under generally accepted accounting principles.

g) Basic and Diluted Earnings (Loss) per Share

Basic earnings per share are computed by dividing the earnings (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Fully diluted amounts are not presented when the effect of the computations is anti-dilutive.

h) Stock-based Compensation

The Company has a stock-based compensation plan as disclosed in Note 8, whereby stock options are granted in accordance with the policies of regulatory authorities. The Company applies the "settlement method" of accounting for stock-based compensation awards. No compensation expense is recognized for those options when issued to employees and directors. Any consideration paid by employees and directors upon exercise of stock options is credited to share capital.

Effective for fiscal years beginning on or after January 1, 2002, public companies are required to adopt the new recommendations of the Canadian Institute of Chartered Accountants regarding accounting for Canadian Stock-based Compensation. These new requirements require that all stock based payments to non-employees and direct awards of stock to employees be accounted for using a fair value based method of accounting. However, the new standard permits the Company to continue its existing policy of not recording compensation cost on the grant of stock options to employees with the addition of pro forma information. The Company has elected to apply the pro forma disclosure provisions of the new standard to awards granted on or after January 1, 2002.

i) Income Taxes

Effective January 1, 2001, the Company retroactively has adopted the asset and liability method of accounting for income taxes, following new standards recommended by the Canadian Institute of Chartered Accountants. The effect of adopting the standards was not considered significant and did not impact amounts reported in prior years. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

Note 2 Significant Accounting Policies – (cont'd)

j) Foreign Currency Translation

Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at year-end exchange rates. Non-monetary items are translated at historical exchange rates. Income and expense items are translated at the exchange rates in effect on the date of the transaction. Resulting exchange gains or losses are included in income when incurred.

Note 3 Capital Assets

	<u>2002</u>				<u>2001</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Amounts Written-off</u>	<u>Net</u>	<u>Net</u>
Furniture and fixtures	\$ 22,582	\$ 5,715	\$ 9,586	\$ 7,281	\$ 19,125
Office equipment	27,763	20,975	4,033	2,755	11,819
Computer - hardware	128,274	99,684	-	28,590	15,511
- software	39,513	32,899	210	6,404	3,816
Leasehold improvements	2,366	1,629	462	275	1,210
	<u>\$ 220,498</u>	<u>\$ 160,902</u>	<u>\$ 14,291</u>	<u>\$ 45,305</u>	<u>\$ 51,481</u>

Note 4 Goodwill

	<u>2002</u>	<u>2001</u>
Unamortized cost	\$ 74,994	\$ 299,963
Less: write-down of acquisition goodwill	( 74,994)	-
accumulated amortization of acquisition goodwill	-	( 224,969)
	<u>\$ -</u>	<u>\$ 74,994</u>

Note 5 Related Party Transactions

During the years ended December 31, 2002 and 2001, the Company incurred the following expenses charged by directors, relatives of directors, former directors, officers, private companies with common directors with the Company and a significant shareholder (Note 12):

	<u>2002</u>	<u>2001</u>
Consulting fees	\$ 35,884	\$ 16,150
Directors fees	9,000	-
Interest	4,104	-
Management fees	174,000	179,000
Travel	4,115	-
Wages and benefits – administrative expenses	-	59,715
	<u>\$ 227,103</u>	<u>\$ 254,865</u>

Note 5 Related Party Transactions – (cont'd)

These revenues and expenses were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

Included in accounts payable at December 31, 2002 is \$7,974 (2001: \$23,066) owing to a director of the Company with respect to unpaid expense reimbursements.

Due to related parties at December 31, 2002 represent amounts owing to companies with common directors and shareholders with respect to unpaid advances, fees and expenses. These amounts are unsecured, non-interest bearing with no specific terms for repayment.

During the year ended December 31, 2002, the Company issued a convertible debenture for \$100,000 to a director of the Company. On September 6, 2002, this debenture was converted to 400,000 common shares.

Note 6 Bank Loan Payable

The bank loan was repayable in monthly instalments of \$5,000 for six months and \$15,000 plus accrued interest payable no later than June 30, 2002. Prior to June 30, 2002, the principal plus interest of \$2,081 was repaid in full.

Note 7 Promissory Note Payable

The promissory note outstanding at December 31, 2001 in the amount of \$78,875 was repaid during the year. Included in the repayment was interest of \$5,521.

Note 8 Share Capital

a) Authorized:

100,000,000 Common shares without par value

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Number</u>	<u>\$</u>	<u>Number</u>	<u>\$</u>
b) <u>Issued:</u>				
Balance, beginning of the year	12,950,759	3,572,634	11,950,758	2,822,634
For cash:				
– pursuant to the conversion of a convertible debenture – at \$0.25	400,000	100,000	-	-
– pursuant to a private placement – at \$0.75	-	-	1,000,001	750,000
Balance, end of the year	<u>13,350,759</u>	<u>3,672,634</u>	<u>12,950,759</u>	<u>3,572,634</u>

c) Escrow:

At December 31, 2002, 5,165,998, shares are held in escrow by the Company's transfer agent. These shares are released from escrow on the basis of 20% of the original escrow amount (7,380,000) semi-annually over the next four years.

Note 8 Share Capital – (cont'd)

d) Commitments:

Stock-based Compensation Plan

The Company has granted employees and directors common share purchase options. These options are granted with an exercise price equal to the market price of the Company's stock on the date of the grant.

A summary of the status of the stock option plan as of December 31, 2002 and December 31, 2001 and changes during the years ending on those dates is presented below:

	<u>December 31, 2002</u>		<u>December 31, 2001</u>	
	<u>Number of</u>	<u>Weighted</u>	<u>Number of</u>	<u>Weighted</u>
	<u>Shares</u>	<u>Average</u>	<u>Shares</u>	<u>Average</u>
		<u>Exercise</u>		<u>Exercise</u>
		<u>Price</u>		<u>Price</u>
Outstanding at beginning of year	976,700	\$1.05	1,032,600	\$1.05
Granted	75,000	\$0.35	-	-
Exercised	-	-	-	-
Cancelled	(104,800)	\$1.48	(55,900)	\$1.00
Options outstanding and exercisable at end of year	<u>946,900</u>	<u>\$0.95</u>	<u>976,700</u>	<u>\$1.05</u>

As at December 31, 2002, there are 946,900 director and employee share purchase options outstanding entitling the holders thereof the right to purchase one common share for each option held as follows:

<u>Number</u>	<u>Price</u>	<u>Expiry</u>
871,900	\$1.00	June 28, 2005
50,000	\$0.35	June 4, 2007
25,000	\$0.35	November 28, 2007
<u>946,900</u>		

Note 8 Share Capital – (cont'd)

d) Commitments: – (cont'd)

Stock-based Compensation – (cont'd)

As disclosed in its accounting policies note, the Company does not record compensation expense on the granting of stock options to employees. Disclosure of pro forma loss and loss per share had the Company elected to follow the fair value method using the Black-Scholes option pricing model is as follows. The pro forma effect of awards prior to December 31, 2001 has not been included.

	Years ended December 31,	
	<u>2002</u>	<u>2001</u>
Net earnings (loss) for the year as reported	\$ 279,634	\$ ( 1,087,080)
Stock-based compensation	( 25,096)	-
Pro forma earnings (loss) for the year	<u>\$ 254,538</u>	<u>\$ ( 1,087,080)</u>
Pro forma basic and diluted earnings (loss) per share	<u>\$ 0.02</u>	<u>\$ ( 0.09)</u>

The following assumptions were used for the Black-Scholes model:

	<u>2002</u>	<u>2001</u>
Risk free rate	2.53%	-
Dividend yield	0%	-
Expected volatility	80.5%	-
Weighted average expected stock option life	4.7 years	-

The weighted average fair value at the date of grant of the employee stock options granted were as follows:

	<u>2002</u>	<u>2001</u>
Weighted average fair value	\$ 0.33	\$ -
Total options granted	75,000	-
Total fair value of options granted	\$ 25,096	\$ -

Share Purchase Warrants

At December 31, 2002, the Company had 500,000 share purchase warrants outstanding entitling the holders thereof the right to purchase one common share for \$1.25 for each warrant held up to October 31, 2003.

Note 9 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows as follows. During the year ended December 31, 2002, the Company issued 400,000 common shares in respect to the conversion of a \$100,000 convertible debenture. This transaction was excluded from the statement of cash flows.

Note 10 Corporation Income Taxes

At December 31, 2002, the Company and its subsidiary have accumulated non-capital losses totalling \$3,808,498, which may be applied against future years taxable income. These losses expire as follows:

December 31, 2005	\$ 250,613
2006	775,994
2007	1,879,450
2008	902,441
	<u>          </u>
	\$3,808,498
	<u>          </u>

The significant components of the Company's future income tax assets are as follows:

	<u>2002</u>	<u>2001</u>
Non-capital losses	\$ 1,523,399	\$ 1,742,120
Less: valuation allowance	(1,523,399)	(1,742,120)
	<u>          </u>	<u>          </u>
	\$ -	\$ -
	<u>          </u>	<u>          </u>

The Company has recorded a valuation allowance against its future income tax assets based on the extent to which it is not more-likely-than-not that sufficient taxable income will be realized during the carry-forward period to utilize all the future tax assets.

Note 11 Comparative Figures

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

Note 12 Subsequent Events

- a) On January 9, 2003, the Company, entered into a credit facility with a bank for a maximum loan of \$250,000 to finance the purchase of capital assets.

This loan is secured by a general security agreement over the assets of the Company and a personal guarantee up to a maximum of \$62,500 by a director of the Company. Subsequent to December 31, 2002, the Company drew \$64,868 against this loan.

- b) The Company entered into a Shareholders Agreement dated February 28, 2003 with the shareholders of Whidden Systems Ltd. ("Whidden") of Halifax, Nova Scotia. Whidden and the Company incorporated a new subsidiary on March 4, 2003 called QHR Atlantic Software Group Inc. ("ASG"). The Company owns 51% and Whidden owns 49% of the new company. ASG was formed in order to expand the Company's business to the Atlantic region of Canada.

ASG may buy-back the 49% of the common shares of ASG owned by Whidden for \$250,000. Funds for the buy-back provision will come from the net positive cash flows generated by ASG business operations.

- c) During the year ended December 31, 2002, an action for \$46,840 was filed against the Company in the British Columbia Supreme Court in respect to disputed services. Subsequent to December 31, 2002, this action was settled for \$17,500, the amount included in accounts payable at December 31, 2002.

Note 13 Segmented Information

The Company's revenue is derived from the following geographic segments:

	<u>2002</u>	<u>2001</u>
Canada		
– Software License Fees	\$ 918,158	\$ 260,747
– Software Services	856,110	660,066
– Consulting Services and Other	85,449	86,090
	<hr/> 1,859,717	<hr/> 1,006,903
United States		
– Software License Fees	459,165	173,649
– Software Services	199,219	127,988
– Consulting Services and Other	47,316	42,510
	<hr/> 705,700	<hr/> 344,147
Total Revenue	<hr/> <u>\$ 2,565,417</u>	<hr/> <u>\$ 1,351,050</u>



**British Columbia  
Securities Commission**

**QUARTERLY AND YEAR END REPORT  
BC FORM 51-901F (previously Form 61)**

**Freedom of Information and Protection of Privacy Act:** The personal information requested on this form is collected under the authority of and used for the purpose of administering the *Securities Act*. Questions about the collection or use of this information can be directed to the Supervisor, Financial Reporting (604-899-6731), P.O. Box 10142, Pacific Centre, 701 West Georgia Street, Vancouver, BC V7Y 1L2. Toll Free in British Columbia 1-800-373-6393.

INCORPORATED AS PART OF:

\_\_\_\_\_ Schedule A

  X   Schedule B  
(place X in appropriate category)

**ISSUER DETAILS**

NAME OF ISSUER	FOR QUARTER ENDED	DATE OF REPORT YY/MM/DD
<b>OHR TECHNOLOGIES INC</b>	<b>December 31, 2002</b>	<b>03/05/16</b>

ISSUER'S ADDRESS **1632 DICKSON AVENUE, SUITE 210**

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CONTACT PERSON	CONTACT'S POSITION	CONTACT TELEPHONE NO.
<b>Al Hildebrandt</b>	<b>Director</b>	<b>(250) 979-1701</b>

CONTACT E-MAIL ADDRESS	WEB SITE ADDRESS
<b>ahildebrandt@ghrsoftware.com</b>	<b>ghrsoftware.com</b>

**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.

<b>"Al Hildebrandt"</b>	<b>AL HILDEBRANDT</b>	<b>03/05/16</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

<b>"Frank Estergaard"</b>	<b>FRANK ESTERGAARD</b>	<b>03/05/16</b>
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED YY/MM/DD

(Electronic signatures should be entered in "quotations")

**QHR TECHNOLOGIES INC.**  
**YEAR END REPORT**  
for the year ended December 31, 2002

Schedule A: Financial Information  
– See financial statements attached

Schedule B: Supplementary Information

1. Analysis of expenses and deferred costs:  
Operating Expenses

– See financial statements attached

2. Related party transactions:

– See Note 5 to the financial statements attached

3. Summary of securities issued and options granted during the period:

a) Summary of common shares issued during the year

<u>Date of Issue</u>	<u>Type of Issuance</u>	<u>No. of Shares Issued</u>	<u>Price Per Share</u>	<u>Total Proceeds</u>	<u>Type of Consideration</u>	<u>Commission</u>
Sept. 6/02	Conversion of debenture	400,000	\$0.25	-	-	-

b) Summary of options granted during the year:

<u>Date of Grant</u>	<u>Number of Options</u>	<u>Name of Optionee</u>	<u>Exercise Price Per Share</u>	<u>Expiry Date</u>
Jun, 17/02	25,000	Jake Epp	\$0.35	Jun. 4/07
Jun. 17/02	25,000	Tom O'Flaherty	\$0.35	Jun. 4/07
Nov. 28/02	25,000	Frank Estergaard	\$0.35	Nov. 28/07
	75,000			

4. Summary of securities as at the end of the reporting period:

a) Description of authorized share capital including number of shares for each class, dividend rates on preferred shares and whether or not cumulative, redemption and conversion:

– See Note 8 to the financial statements attached

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

– See Note 8 to the financial statements attached

c) Description of options, warrants and convertible securities outstanding including number or amount exercise or conversion price and expiry date, and any recorded value:

– See Note 8 to the financial statements attached

d) Number of shares in each class of shares subject to escrow or pooling agreements:

– See Note 8 to the financial statements attached

5. List of Directors and Officers: Al Hildebrandt, President, Chief Executive Officer and Director  
Dave Goertz, Director  
Kathy Love, Corporate Secretary  
Jake Epp, Director  
Tom O'Flaherty, Director  
Frank Estergaard, Director

Schedule C: Management Discussion  
– See attached

**QHR TECHNOLOGIES INC.**  
**YEAR END REPORT**  
for the year ended December 31, 2002

Schedule C: Management Discussion and Analysis

**Overview**

QHR Technologies Inc. (the "Company" or "QHR") continues to successfully build its business operations through the development, marketing and implementation of its proprietary human resource ("HR") software products. These software modules are collectively known as Quadrant HR™ with trademarks held in both Canada and the United States.

The Company operates its business through its wholly owned subsidiary QHR Software Group Inc. ("QHR Group") and its recently formed eastern Canadian subsidiary, QHR Atlantic Software Group Inc. ("QHR Atlantic") that was established subsequent to the year-end.

QHR Group is an innovative Western Canadian software design firm headquartered in Kelowna, British Columbia. Operating since 1997, it continues to create proprietary software solutions specially designed to automate all facets of HR issues where complex HR administration is required. The business model of QHR Group focuses on software design, customer development and satisfaction, marketing and implementation of computer software for HR, staff scheduling and payroll management in complex enterprise clients such as health care facilities. In addition it provides training and software service to all of its clients.

QHR Atlantic was formed in March 2003 to concentrate on market opportunities in Atlantic Canada. Operating out of Halifax, NS its business model concentrates on the marketing of Quadrant HR™ in Nova Scotia, Prince Edward Island, New Brunswick and Newfoundland. It was established with the principal shareholders of Whidden Systems Ltd. a business that has been a long time supplier of payroll software to over 15,000 healthcare employees in eastern Canada. The strategy was to develop market opportunities for Quadrant HR and secure new customers in Atlantic Canada.

QHR is completing the transformation of its business plans from product development to sales and distribution. This includes the enhancement of its internal sales and marketing organization. The business model concentrates on generating revenues calculated on the number of employees serviced by its software products. Although the marketing cycle can be lengthy customer employees serviced by Quadrant HR has grown steadily to approximately 85,000 employees at the end of the year.

A key strength of the Company's software is that it provides user friendly and function rich products that give HR administrators the ability to collect and utilize employee information from many sources through one central data repository. It is designed to automate the current business practice of many HR managers that perform their duties manually or with limited computer support such as general-purpose spreadsheet applications. The wide variety of financial data resulting from the specific HR transactions required to effectively manage HR departments is simply derived from accurate payroll calculations.

Quadrant HR eliminates the practice of recording personnel data several different times in different systems in order to capture the requirements of staff scheduling, human resources and payroll. The software model is designed to provide a reliable single-entry personnel database that is accessible by all managers. This significantly improves the effectiveness and efficiency of the modern HR department.

QHR has developed a unique approach to service customers with complex HR issues including multiple employee positions, multiple employment contracts and multiple operational facilities such as emerging healthcare organizations. Quadrant HR has been specifically tailored for complex employee environments in large to medium sized organizations. This is a key competitive advantage that has been recognized by Alberta Wellnet when it chose Quadrant HR as its HR products and contracted with QHR by way of a Standing Offer agreement. This offer allows the newly formed Alberta health regions with approximately 60,000 healthcare employees to purchase Quadrant HR at pre-determined prices.

Quadrant HR has proven itself as an effective management tool that delivers significant cost efficiencies. The Company will continue to develop, expand and exploit its products in the healthcare marketplace and focus on new markets such as manufacturing and other industries.

The Financial Statements for the year ending December 31, 2002 for the Company are prepared on a consolidated basis. The costs to date to develop this unique suite of products are approximately \$3,750,000 since inception in 1997. These costs are not reflected on the Balance Sheet of the Company as an asset under Generally Accepted Accounting Policies as currently applicable to the Company. Management believes that the market for QHR products is proving to exist and all expenditures made on Quadrant HR will prove to be worthwhile.

### **Products**

The Company's software products are all designed to provide modern HR managers with useful automation to handle the unique needs of today's complex human resource environment. QHR markets these products under the name Quadrant HR. It is designed to be a powerful management tool and provides software assistance to HR managers for:

- Payroll processing
- Compensation planning
- Performance management
- Organization/position management
- Recruitment and selection
- Central employee database
- Compliance reporting
- Employee relations
- HR planning
- Staff scheduling
- Workflow management
- Employee training and development

### **Markets**

QHR currently offers Quadrant HR software products in Canada and the United States for healthcare applications. The market for HR services is highly competitive, rapidly evolving and subject to rapid technological change. The market development of QHR is indicative of a start-up technology company that is beginning to make the shift from product design and development to marketplace distribution.

It has been essential that Quadrant HR become a reliable best-of-breed software product automating multiple HR functions for its clients. Therefore, the continued investment and expenditures in the product development of Quadrant HR and related services has been necessary. Our competitive advantage has to be that our products can out perform their competition and for our customer service to be the best available in the market.

Target markets that are ideal candidates for Quadrant HR include:

- Healthcare facilities
- Municipalities
- Public safety organizations such as fire, police and emergency service departments
- Hotel, casino and entertainment operations
- Civil services such as post office and military

One of the main barriers to entry into these markets for QHR has been its financial condition and the limited resources at its disposal. QHR is a relatively new company with a good suite of products but must demonstrate to potential customers that we will be able to service any software applications we install on a long-term basis. The Company is therefore marketing its products with large integration companies that can offer that assurance to customers.

## **Results of Operations**

QHR and QHR Group consolidate their operations for the purpose of financial reporting and the financial statements are a continuation of the operations of QHR Group. The operations of QHR are included in the consolidated financial statements. The Company's year-end is December 31.

Results of operations are not necessarily indicative of results to be expected in future periods. Various trends and factors must be managed in order to achieve revenue growth and profitability. The introduction and market acceptance of Quadrant HR has taken a greater investment of Company resources and time than management had originally anticipated. The business plans of the Company are settling into reliable cash flow patterns and financial needs can be reasonably predicted. The Company is working to ensure that operations are funded from a combination of internal and external sources of capital, as it is required.

Generally Accepted Accounting Principles, as currently applicable to the Company requires the Company to expense all product development costs in the period they are incurred. QHR has invested in excess of \$3,750,000 in the development of Quadrant HR since this project began and it is not reflected on the balance sheet as an asset. These costs have been expensed on the Statement of Operations. Management believes that Quadrant HR software has found an emerging market niche where revenue volume is growing consistently.

The Company's revenues and expenditures are indicative of a junior organization making the transition from a product development enterprise to a marketing company. Much investment has been required to introduce the Company products to the marketplace and assess customer requirements and these investments have begun to show healthy returns during the year.

The Company, for the year ending December 31, 2002, recorded a profit from operations of \$279,634 after goodwill and amortization compared to a loss of \$1,087,080 from the previous year, a positive improvement of \$1,366,714. The earnings per share for the year rose to \$0.02 compared to a loss of \$0.09 per share for the previous year. This was a direct result of the completion of the first generation of Quadrant HR, a focused marketing effort and an increased adoption rate of the product by customers.

The Company recognized revenues for the year ending December 31, 2002 of \$2,565,417 compared to \$1,351,050 in 2001, an increase of 90% over the previous year. Revenue recognition was determined by the guidance provided by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants Statement of Position 97-2 entitled "Software Revenue Recognition".

Deferred revenue reached \$845,378 compared to \$375,024 at 2001, an increase of 125% from the previous year. Deferred revenue is defined as cash received for contractual work yet to be done. It reflects positively on the success of the marketing effort of QHR as \$3,035,771 in revenues and new contracts were added to the financial landscape of the Company during the year.

The Company invested \$426,370 in sales and marketing development during the year compared to \$364,937 for 2001. This investment was made to establish Quadrant HR in the marketplace. Customer contract success was developed steadily since the expenditures were made.

Salaries for the year declined to \$1,185,800 compared to \$1,320,778 for 2001. This has been due to the substantial completion of the first generation of Quadrant HR and a subsequent reduction of staff.

Consulting and management fees for the year were \$309,131 compared to \$289,241 for 2001. These were spent for market development and general management.

Legal fees were \$33,525 compared to \$36,822 for 2001. Legal fees represent work rendered on the business operations and trade marking activities of QHR and QHR Group.

Product development expenditures decreased to \$590,018 compared to \$736,974 for 2001. These costs diminished over prior periods as the first generation of Quadrant HR was substantially completed. The bulk of these expenditures were for continuous improvements to the product line and additional functions such as Web Applicant Tracking and Staff Scheduling that were necessary for Quadrant HR to gain market share.

### **Milestones**

The most critical milestone for the Company has been the growth of the adoption rate for Quadrant HR by customers during the year. This has proven the viability of the business model of QHR. It has permitted the Company to deliver its first profitable year since inception on behalf of its shareholders. Earnings per share reached \$.02 compared to a loss of \$.09 per share a year ago.

QHR Group was granted trademarks for Quadrant HR in both Canada and the United States.

Due to this success, QHR has enhanced its status as a respected member of the technology community. In March 2003 new larger premises were secured in the new Technology Centre in Kelowna, BC, Canada. Staff complement also grew to 36 members.

During the year, the Company was fortunate to find the personnel and financial resources to advance its product development schedule earlier than anticipated at the beginning of the year. The Web Applicant-Tracking module was successfully developed, installed in a commercial site and working as planned. The new Staff-Scheduling module is nearing completion and several implementations are currently underway. Initial customers interest in the Staff Scheduling module was extremely strong and early orders are at various stages of negotiation.

Due to the success of the sales effort in 2002, a larger investment in marketing effort will be made in 2003. The objective will be to continue to accelerate the adoption rate of Quadrant HR by customers.

This investment in marketing has proven successful in several regional markets such as Alberta and Manitoba, QHR has become a product standard. In Manitoba, 5 of 10 provincial regions have contracted with QHR to purchase its products. In Alberta, Alberta Wellnet has a Standing Offer contract for QHR's products and services in place for those customers who choose to move forward with a new HR system.

The financial health of QHR improved significantly during the year mainly through internal cash flows from operations. A more solid financial foundation has been achieved from which QHR can lever improved access to capital from external sources.

### **Investor Relations**

The Company entered into an Investor Relations Contract on November 27, 2002 with David R. Procter, an independent contractor to provide investor relations related services. Mr. Procter is an experienced businessman with investment industry experience. The agreement will remain in force for a period of one year expiring on November 26, 2003. In consideration of the services provided by Mr. Procter, QHR agreed to pay him a monthly fee of \$3,000. No incentive stock options were granted under the terms of this agreement.

### **Legal Proceedings**

The Company was involved with a legal action in the British Columbia Supreme Court regarding a disputed trade payable with one of its suppliers. Subsequent to the year-end, this action was settled for \$17,500.

There are no other legal proceedings in progress.

### **Subsequent Events**

Subsequent to the year ending December 31, 2002, the Company established a new subsidiary corporation called QHR Atlantic Software Group Inc. (“QHR Atlantic”). This 51% held subsidiary was formed with the principal shareholders of Whidden Systems Ltd. (“Whidden”) of Halifax, Nova Scotia to market Quadrant HR in Nova Scotia, Prince Edward Island, New Brunswick and Newfoundland on a co-venture basis. Whidden was a supplier of payroll software in Atlantic Canada and had a mature customer base that has been made available to QHR Atlantic to develop with Quadrant HR.

QHR Atlantic may buy-back the common shares held by Whidden for \$250,000. Funds for the buy-back provision must come from the positive cash flows generated by QHR Atlantic business operations. It will be consolidated in the future financial reports of QHR.

The Company secured new larger premises in the new Technology Centre in Kelowna, BC in March 2003 and staff complement has grown to 36.

### **Related Party Transactions**

Gearhead Enterprises Inc. (“Gearhead”), a wholly owned company of a Director of the Company was paid \$78,000 during the year for management services. Gearhead has an outstanding stock option of 150,000 common shares exercisable at \$1.00 per common share. These options expire on June 28, 2005.

Achievers Choice Technologies Inc., a company controlled by the President, CEO and Director of the Company was paid \$96,000 during the year for management services. The CEO has an outstanding stock option of 450,000 common shares exercisable at \$1.00 per common share. These options expire on June 28, 2005.

The Corporate Secretary of the Company was paid \$19,500 during the year for consulting services. This officer has an outstanding stock option of 5,000 common shares exercisable at \$1.00 per common share. These options expire on June 28, 2005.

Other related party transactions are as disclosed in Note 5 to the consolidated financial statements.

### **Liquidity and Capital Resources**

The working capital deficiency at December 31, 2002 was \$671,803 a reduction of \$460,804 from the working capital deficiency of \$1,132,607 at December 31, 2001.

The improvement in the working capital deficiency is primarily the result of improved cash flows from an increasing adoption rate for the Company’s products by customers. The working capital deficiency includes a loan from a control shareholder in the amount of \$85,019 and deferred revenue of \$845,378. Excluding these two amounts would result in a working capital surplus of \$258,594 for operational purposes.

Cash reserves improved to \$150,287 at December 31, 2002 from \$21,898 for 2001.

A term loan in the amount of \$45,000 from the Royal Bank and a promissory note in the amount of \$78,875 were repaid during the period including interest.

The balance of the unsecured advances from a company controlled by the Chief Executive Officer, President, control shareholder and director of the Company were reduced to \$85,019 by the year-end.

In conjunction with the new leased premises, the Company entered a new term loan with a major Canadian bank for \$250,000. The loan is for the purchase of office equipment, furniture and leaseholds. The loan may be amortized over the lesser of five years or the lease period including renewal options. Interest is payable monthly in arrears and principal plus interest is payable monthly. The loan is secured by a general security over the assets of the Company and a personal guarantee up to a maximum of \$62,500 by a director of the Company. Less than \$65,000 of the loan has been utilized.

### **General Risk Factors and Uncertainties**

The Company's common shares have experienced price volatility but managed to improve due to the success of our operational development. The market for technology issues as a whole has experienced extreme price fluctuations and disinterest by investors. This major decline in interest in technology companies may negatively impact our ability to raise capital, retain employees and continue to implement our business plan should additional capital be required.

The Company is focused on expanding its business through the development and marketing of new products such as Web-Applicant Tracking and Staff Scheduling to an expanding customer base. Future results will depend on the ability to successfully complete these product offerings and the resulting adoption rate of customers to implement these products into their HR administration systems. QHR must accumulate the resources to complete these products from a combination of internal and external sources.

Additional risks and uncertainties that pertain to the growth of QHR operations are detailed below:

#### **Lengthy Sales and Implementation Cycles**

The Company currently experiences a lengthy marketing and sales cycle that requires considerable investment of Company resources to attract new customers. There are no assurances of success and approvals of contracts are often subject to delays that are beyond the control of QHR.

Contracts all vary in terms and conditions but usually involve a fixed price per employee for the various HR functions to be delivered. The implementation of software to the satisfaction of the customer involves various periods of time ranging from three months to eighteen months. This situation means that QHR must work closely with its clients to achieve success.

There are no assurances that any negative events in the implementation process for any customer will not have adverse effects on the business plans of QHR, the results of its operations and its financial health.

#### **Product Development and Technological Change**

The software industry is characterized by rapid technological change, competition and many new product introductions. The ability of QHR to continue to achieve market success and maintain its competitive advantages will depend on its capability to maintain a competent R&D staff that is current with all technological advances as it pertains to evolving computer hardware, software platforms and operating environments.

#### **Foreign Exchange Exposure**

The Company has had some commercial success in the United States. Currently about 27% of the Company's revenues have been generated in US dollars while corresponding expenses are incurred in Canadian dollars. This means the Company is exposed to exchange rate fluctuations between the Canadian and U.S. dollar. To date, QHR has not engaged in exchange rate hedging activities.

#### **Ability to Attract and Retain Key Personnel**

Corporate success is largely dependent on the performance of its key employees. Failure to retain key employees and to successfully recruit additional key employees with the requisite skills could result in negative operating results in terms of financial health and profitability. Competition for highly skilled management, technical and other employees has decreased somewhat over the past several years, but is still an important growth factor in the software industry.