



QSOUND LABS, INC.

**INFORMATION CIRCULAR
FOR THE ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 27, 2002.**

SOLICITATION OF PROXIES BY MANAGEMENT

This Information Circular is furnished in connection with the solicitation of proxies by the management of QSound Labs, Inc. (the "Company") for use at the Annual and Special Meeting of Shareholders of the Company (the "Meeting"). The Meeting will be held on Thursday, June 27, 2002 at the corporate head office of the Company at Suite 400 – 3115 12th Street N.E., Calgary, Alberta T2E 7J2 at 10:00 o'clock in the morning for the purposes set forth in the Notice of Annual and Special Meeting accompanying this Information Circular (the "Notice") and at any adjournment thereof. The cost of solicitation of proxies will be borne by the Company.

APPOINTMENT OF PROXIES

The persons named in the enclosed form of proxy are directors and/or officers of the Company. A shareholder has the right to appoint a person, who need not be a shareholder, as his nominee to attend and act for him and on his behalf at the Meeting, or any adjournment thereof, other than the persons designated in the enclosed form of proxy. A shareholder desiring to appoint some other person as a representative at the Meeting, or any adjournment thereof, may do so either by inserting such person's name in the blank space provided in the form of proxy or by completing another proper form of proxy and, in either case, delivering the completed proxy to the Company's transfer agent, Computershare Investor Services, 600 – 530 8th Avenue S.W., Calgary, Alberta, T2P 3S8 in the enclosed self-addressed envelope not less than 48 hours, excluding Saturdays, Sundays and statutory holidays, prior to the Meeting or any adjournment thereof.

REVOCABILITY OF PROXIES

A shareholder who has given a proxy may revoke it. In addition to revocation in any other manner permitted by law, a proxy may be revoked by an instrument in writing executed by the shareholder or his attorney authorized in writing, or, where the shareholder is a corporation, by a duly authorized officer or attorney of the corporation, delivered either to Computershare Investor Services, 600 – 530 8th Avenue S.W., Calgary, Alberta, T2P 3S8 at any time up to and including the last business day preceding the day of the Meeting or any adjournment thereof, or to the Chairman of the Meeting on the day of the Meeting, or any adjournment thereof.

VOTING SHARES AND PRINCIPAL HOLDERS THEREOF

The Company has an authorized capital consisting of an unlimited number of Common Shares ("Common Shares"), an unlimited number of first preferred shares and an unlimited number of second preferred shares. As of the date of this Information Circular 7,085,574 Common Shares are issued as fully paid and non-assessable. Each Common Share is entitled to one vote. Shareholders of record at the close of business on the record date of May 7, 2002 will be entitled to attend and vote at the Meeting. As of the date of this Information Circular, to the knowledge of the directors and senior officers of the Company, there is no person or entity who beneficially owns, directly or indirectly, or exercises control or direction over more than 10 percent of the issued Common Shares of the Company.

EXERCISE OF DISCRETION WITH RESPECT TO PROXIES

The shares represented by the enclosed proxy will be voted for or against or withheld from voting on any motion, by ballot or otherwise, in accordance with any indicated instructions. In the absence of such direction, such shares will be voted FOR the matters referred to in the form of proxy.

If any amendment or variation to the matters identified in the Notice is proposed at the Meeting or any adjournment thereof, or if any other matters properly come before the Meeting or any adjournment thereof, the enclosed proxy confers discretionary authority to vote on such amendments or variations or such other matters according to the best judgement of the appointed proxyholder. At the time of printing this Information Circular, management of the Company knows of no such amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice.

VOTING OF COMMON SHARES – ADVICE TO BENEFICIAL SHAREHOLDERS

The information set forth in this section is of significant importance to a substantial number of the shareholders who hold Common Shares through brokers and their nominees and not in their own name. Shareholders who do not hold their Common Shares in their own name (referred to in this Information Circular as “Beneficial Shareholders”) should note that only proxies deposited by shareholders whose names appear on the records of the Company as the registered holders of the Common Shares can be recognized and acted upon at the Meeting. If Common Shares owned by a shareholder are held in an account of an intermediary such as a bank, broker or securities dealer, then in almost all cases those shares will not be registered under the name of the shareholder on the records of the Company. Such shares will more likely be registered under the name of the intermediary or the clearing agency of which the intermediary is a participant. Shares held by intermediaries can only be voted (for or against any resolution) upon the instructions of the Beneficial Shareholder. Without specific instructions, intermediaries are prohibited from voting shares for their clients. Applicable regulatory policy requires intermediaries to seek voting instructions from Beneficial Shareholders in advance of shareholders’ meetings. Every intermediary has its own mailing procedures and provides its own return instructions, which should be carefully followed by Beneficial Shareholders in order to ensure that their Common Shares are voted at the Meeting. The majority of intermediaries delegate responsibility for obtaining instructions from clients to third party mailing services, such as Independent Investor Communications Corporation (“IIIC”) in Canada and ADP Investor Communications Services (“ADP”) in the United States. These mailing services typically prepare their own form of proxy, based upon the Company’s form of proxy, and deliver these to Beneficial Shareholders by mail or electronic delivery. The mailing service company’s form of proxy is limited to instructing the registered shareholder how to vote on behalf of the Beneficial Shareholder. **A Beneficial Shareholder receiving a form of proxy from an intermediary or a mailing service must vote and return the proxy well in advance of the Meeting in order to have the shares voted.** Intermediaries and mailing services may also permit Beneficial Shareholders to vote via telephone or the Internet. All references to shareholders in this Notice of Meeting, Information Circular and the accompanying form of proxy are to shareholders of record unless specifically stated otherwise.

PARTICULARS OF MATTERS TO BE ACTED UPON

APPOINTMENT OF AUDITORS

The persons named in the enclosed form of proxy intend to vote for the appointment of KPMG, Chartered Accountants, Suite 1200, Bow Valley Square II, #205 - 5th Avenue SW., Calgary, Alberta, T2P 4B9, as auditors of the Company to hold office until the next annual meeting of shareholders. KPMG were first appointed as the Company’s auditors on June 25, 1987.

ELECTION OF DIRECTORS

It is intended to nominate the persons listed below for election as directors of the Company as management's nominees and the persons named in the accompanying form of proxy intend to vote for the election of these nominees. Each director who is elected will hold office until the close of the next annual meeting of shareholders, or until his or her successor is elected or appointed, unless his or her office is vacated earlier in accordance with the by-laws of the Company or with the provisions of the Business Corporations Act of Alberta. The following information concerning the respective nominees has been furnished by them:

Name, Address & Office Held	Principal Occupation or Employment	Date of Election or Appointment as Director	Common Shares of the Company Beneficially owned, Directly or Indirectly or Controlled or Directed
David J. Gallagher Calgary, AB	President & CEO of the Company	February 2, 1991	23,250
James R. Bonfiglio* Las Vegas, NV	Business Consultant	October 31, 1992	25,000
Brian G. Harrington* Calgary, AB	Partner Western New Ventures Capital Corporation	June 28, 2001	750

*Audit Committee members

There are no arrangements or understandings between any of the proposed nominees and any other person pursuant to which the nominee is to be elected.

REDUCTION OF STATED CAPITAL

At the Meeting, shareholders of the Company will be asked to consider a special resolution to reduce the stated capital of the Company's Common Shares by \$1,330,157.94 U.S. This amount is applied as a reduction of the stated capital of the Common Shares as to \$828,319.84 U.S. at June 30, 2001, \$458,736.15 U.S. at September 30, 2001 and \$43,101.95 U.S. at December 31, 2001. The stated capital reduction is being made in order to reflect the cancellation of 208,765 Common Shares which were repurchased by the Company in 2001, and will not have any adverse effect on the shareholders of the Company. This special resolution must be approved by two-thirds of the votes cast in respect of such resolution.

At the Meeting, shareholders will be asked to consider and, if thought fit, to approve the following Special Resolution, with or without amendments:

"BE IT RESOLVED as a Special Resolution of the shareholders of the Company that:

1. The stated capital of the Common Shares of the Company be and it is hereby reduced pursuant to Section 39 of the Business Corporations Act (Alberta) by deducting from the stated capital account for the Common Shares the amount of \$828,319.84 U.S. as at June 30, 2001, \$458,736.15 U.S. as at September 30, 2001 and \$43,101.95 U.S. as at December 31, 2001;
2. Any one director or officer of the Company be authorized for and on behalf of the Company to make all such arrangements, do all acts and things and to sign and execute all documents and instruments in writing, whether under the corporate seal of the Company or otherwise, as may be considered necessary or advisable to give full force and effect to the foregoing; and
3. The Board of Directors of the Company may revoke this special resolution before it is acted upon without further approval of the shareholders.

AMENDMENT OF BY-LAW NO. 1

Shareholders will be asked at the Meeting to consider and if thought fit, pass, with or without amendment, a resolution confirming the amendment of By-law No. 1 of the Company. The amended By-law allows the use of electronic communications for delivery of documentation to shareholders, shareholder meetings and shareholder voting. Electronic communications may be used only to the extent, if any, that the Business Corporations Act of Alberta, the Company's governing statute, may permit such use, and is in addition to, and not in lieu of, traditional forms of communication now used by the Company in these matters. The amended By-law was approved by the Board of Directors on May 6, 2002. In order to be effective the amended By-law must be approved by a majority of the votes cast by shareholders voting in respect of the resolution. Appendix A to this Circular sets out the amended sections of By-law No. 1.

APPROVAL OF OPTIONS

Shareholders will be asked at the Meeting to consider and, if thought fit, pass, with or without amendment, a resolution approving the grant of options outside of the Company's Stock Option Plan to insiders. Pursuant to the Nasdaq Stock Market, any grant of more than 25,000 options made by the Company outside of the Stock Option Plan, or made without prior written notification to Nasdaq, to a director or officer requires the approval of shareholders of the Company. On July 1, 2001 the Company granted, subject to shareholder approval, options to purchase Common Shares of the Company at the exercise price of \$1.04 U.S. per share to executive officers and directors of the Company as disclosed in the Statement of Executive Compensation below. (See "Options" and "Compensation of Directors" below). The stock options were granted in accordance with the Company's compensation policies as disclosed in "Report of the Compensation Committee" below. The stock options must be approved by a majority of the votes cast by shareholders voting in respect of the resolution.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation

The following table sets forth, for the periods indicated, information concerning the compensation earned by the Chief Executive Officer, Executive Vice President, Corporate Secretary and Controller in 1999, 2000 and 2001:

Summary Compensation Table

Name & Principal Position	Annual Compensation			Long Term Compensation	All Other Compensation
	Year	Salary	Bonus	Common Shares Under Options Granted	
David J. Gallagher ¹ President & CEO	2001	148,200 U.S.	nil	461,000	nil
	2000	155,500 U.S.	nil	nil	nil
	1999	143,000 U.S.	nil	125,000 ²	nil
Francis Munoz ³ Executive Vice President	2001	100,000 Cdn.	nil	66,435	nil
	2000	100,000 Cdn.	nil	nil	nil
	1999	70,454 Cdn.	nil	75,000 ⁴	nil
Joanna Varvos Corporate Secretary	2001	107,100 Cdn.	nil	97,000	nil
	2000	104,550 Cdn.	nil	nil	nil
	1999	96,750 Cdn.	nil	17,500 ⁵	nil
Doug Drury ⁶ Controller	2001	72,000 Cdn.	nil	6,250 ⁷	nil
	2000	65,500 Cdn.	nil	nil	nil

¹ Mr. Gallagher's salary payable in 1999, 2000 and 2001 was \$200,000 U.S. See "Statement of Executive Compensation, Employment Contracts".

² 500,000 options originally granted were consolidated to 125,000 options when the Company consolidated its common shares on July 9, 2001.

³ Mr. Munoz joined the Company on April 19, 1999 at an annual salary of \$100,000.00 Cdn.

⁴ 300,000 options originally granted were consolidated to 75,000 options when the Company consolidated its common shares on July 9, 2001.

⁵ 75,000 options originally granted were consolidated to 17,500 options when the Company consolidated its common shares on July 9, 2001.

⁶ Mr. Drury joined the Company on January 13, 2000 at an annual salary of \$63,000 Cdn. to August 31, 2000 and \$72,000 Cdn. thereafter.

⁷ 25,000 options originally granted were consolidated to 6,250 options when the Company consolidated its common shares on July 9, 2001.

Options

The following table sets out details of options to purchase Common Shares granted to executive officers of the Company during 2001. Options granted at the exercise price of \$1.04 U.S. are subject to the approval of shareholders of the Company. (See "Approval of Options" above).

Options Grants During the Most Recently Completed Financial Year

Name	Securities Under Options Granted	% of Total Options Granted to Employees in Financial Year	Exercise or Base Price	Market Value of Securities Underlying Options on Date of Grant	Expiration Date
David J. Gallagher President & CEO	253,190 207,810	25.65% 21.05%	\$1.04 U.S. \$0.47 U.S.	\$1.04 U.S. \$0.47 U.S.	July 22, 2006 December 2, 2006
Francis Munoz Executive Vice President	66,435 ¹	6.73%	\$1.04 U.S.	\$1.04 U.S.	July 22, 2006
Joanna Varvos Corporate Secretary	25,467 71,533	2.58% 7.24%	\$1.04 U.S. \$0.47 U.S.	\$1.04 U.S. \$0.47 U.S.	July 22, 2006 December 2, 2006
Doug Drury Controller	5,536 ² 16,464 ²	0.56% 1.66%	\$1.04 U.S. \$0.47 U.S.	\$1.04 U.S. \$0.47 U.S.	July 22, 2006 December 2, 2006

¹ These options are subject to vesting in accordance with performance criteria to be agreed upon by Mr. Munoz and the Company.

² These options are subject to vesting in accordance with performance criteria to be agreed upon by Mr. Drury and the Company.

Employment Contracts

The Company has entered into employment contracts with Messrs. David Gallagher, Francis Munoz and Doug Drury. Each of these employment contracts provides for a base salary and stock options and Mr. Gallagher's contract provides for other compensation including discretionary bonuses if recommended by the Compensation Committee and approved by the Board of Directors, and participation in any pension and profit sharing plan established from time to time by the Board. If terminated without cause, if Mr. Gallagher's employment contract is not renewed for at least one year following expiration, or if there is a change in control of the Company and Mr. Gallagher elects not to continue his employment, Mr. Gallagher is entitled to remuneration in an amount equal to the greater of salary for the unexpired term of the employment agreement or one year, a lump sum payment in the amount of \$203,000 U.S. and a lump sum payment equal to the difference between the salary payable and the salary paid to Mr. Gallagher from January 1, 2000 to the date of termination. Mr. Gallagher's employment contract is subject to renewal on September 30, 2002. If there is a change in control of the Company Messrs. Gallagher and Munoz are entitled to vesting of any unvested options.

Report of the Compensation Committee

The objectives of the compensation program for executive officers are to attract, motivate and retain highly qualified individuals capable of carrying out the Company's goals of improving corporate performance and increasing shareholder value. A combination of salary and long term incentive stock options is used to provide both a competitive rate of base remuneration and an incentive to achieve corporate goals.

The salary component of the compensation package for executive officers is determined on the basis of a number of factors including the level of responsibility, experience, salary ranges for similar positions in comparable companies, previous compensation, individual performance and overall corporate performance. The Compensation Committee considers compensation information from other North American industry related companies and establishes base salaries at similar levels.

The Board of Directors or the Compensation Committee may in its discretion from time to time grant options under the Company's 1998 Stock Option Plan ("Plan") to officers, directors, key employees and persons or companies providing services for the Company. Under the Plan the Board or the Committee may delegate to an executive officer of the Company the authority to grant options to employees who are not insiders, and the purchase price of Common Shares for such options may be not less than their market value on the date of grant. Under the Plan the Board or the Committee may determine the exercise price of stock options. The term of each stock option shall be determined by the Board or Committee when the option is granted, and may not exceed ten years from the date of grant. Options may be exercised for a period of 30 days after termination of the optionee's employment or term as a director, or the expiration of the option term, whichever period is shorter. If an optionee

should die while in the employment of the Company, his options may be exercised by the optionee's legal representative until the earlier of one year after the date of death or the expiration of the term. The foregoing 30 day and one year time periods may be increased by the Board of Directors. The Plan may be amended by the Board provided any such amendment may not adversely affect any outstanding option without the consent of the optionee and options granted under the Plan may be amended upon agreement with the optionee. Options may also be granted by the Board outside of the Plan, and may be granted to employees who are not officers or directors under the Company's Employee Stock Option Plan. Pursuant to the Nasdaq Stock Market, any grant of more than 25,000 options made by the Company outside of the Plan to a director or officer requires the approval of shareholders of the Company. The factors considered by the Committee in determining the size of option grants are the individual's performance, level of responsibility and previous option grants well as overall corporate performance.

The base salary payable and stock options issued to Mr. David J. Gallagher, President and Chief Executive Officer of the Company since June, 1992, is determined using the same methods used to determine compensation arrangements for other executive officers.

Composition of the Compensation Committee

The two directors who are members of the Compensation Committee are Mr. James R. Bonfiglio and Mr. Brian G. Harrington. Neither of these directors are officers of the Company.

Submitted by the Compensation Committee

Indebtedness of Directors, Executive Officers and Senior Officers

Since January 1, 2001 no director, executive officer or senior officer of the Company has been indebted to the Company, except for routine indebtedness.

Compensation of Directors

The following table sets out details of options to purchase Common Shares granted to directors of the Company during 2001. Options granted at the exercise price of \$1.04 U.S. are subject to the approval of shareholders of the Company. (See "Approval of Options" above).

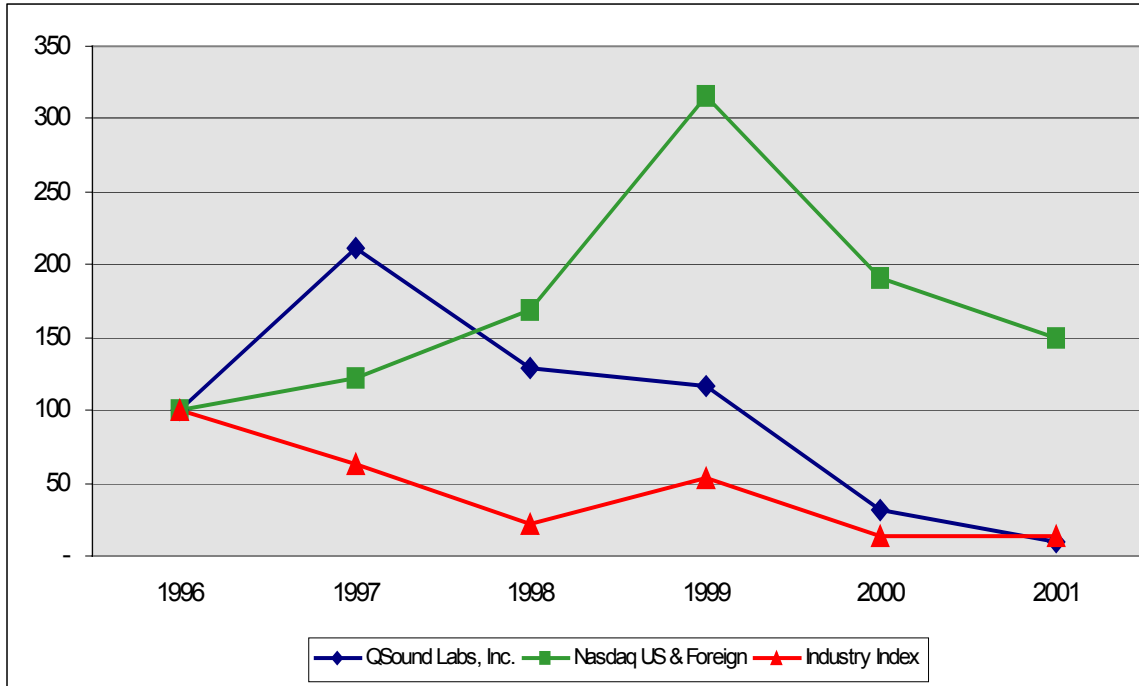
Options Grants During the Most Recently Completed Financial Year

Name	Securities Under Options Granted	Exercise or Base Price	Market Value of Securities Underlying Options on Date of Grant	Expiration Date
James R. Bonfiglio	114,760	\$1.04 U.S.	\$1.04 U.S.	July 22, 2006
	155,240	\$0.47 U.S.	\$0.47 U.S.	December 2, 2006
Brian G. Harrington	6,250	\$1.04 U.S.	\$1.04 U.S.	July 22, 2006
	28,750	\$0.47 U.S.	\$0.47 U.S.	December 2, 2006

There were no other arrangements for payments, and no other compensation was paid in 2001, by the Company to any director.

Performance Graph

The following graph compares the yearly percentage change in the cumulative shareholder return over the last five years on the Common Shares of the Company (assuming a \$100 investment was made on December 31, 1996) with the cumulative total return of the Nasdaq US & Foreign Index and an index of three peer companies selected by the Company, assuming reinvestment of dividends where applicable. The peer company index consists of two audio enhancement companies (SRS Labs, Inc. and Spatializer Audio Laboratories, Inc.) and an e-commerce company (Network Commerce Inc.) that was added to the index in September, 1999 when the Company entered the e-commerce business. This peer group index is subject to change from time to time as the Company or its competitors change their focus or undergo other significant changes, or as new competitors emerge.



	1996	1997	1998	1999	2000	2001
QSound Labs, Inc.	100.00	211.11	129.63	116.74	31.56	9.78
Nasdaq US & Foreign	100.00	122.07	169.07	315.13	190.15	149.91
Peer Company Index	100.00	63.77	22.27	53.43	13.27	13.96

INTEREST OF CERTAIN PERSONS IN MATTERS TO BE ACTED UPON

Other than as set forth in this Information Circular with respect to the election of directors, no director or senior officer of the Company at any time since the beginning of the Company's last financial year, nor any proposed nominee for election as a director of the Company, nor any member beneficially owning shares carrying more than 10 percent of the voting rights attached to the Common Shares of the Company, nor any associate or affiliate of any of the foregoing, has any material interest, directly or indirectly, by way of beneficial ownership of securities or otherwise, in any matter to be acted upon.

OTHER MATTERS

Management knows of no amendments, variations or other matters to come before the Meeting other than the matters referred to in the Notice of Annual and Special Meeting of Shareholders. However, if any other matter properly comes before the Meeting, the accompanying instrument of Proxy will be voted on such matter in accordance with the best judgement of the person or persons voting the proxy.

CERTIFICATE

The foregoing contains no untrue statement of a material fact and does not omit to state a material fact that is required to be stated or that is necessary to make a statement not misleading in the light of the circumstances in which it is made.

The contents and sending of this Information Circular have been approved by the Board of Directors of the Company.

Dated: May 10, 2002

“David J. Gallagher”
President and CEO

APPENDIX A

By-law No. 1 is amended by deleting and adding the following sections:

Deleted: Section 52. Telephone Participation Any person, other than only in the capacity of a shareholder, entitled to attend a meeting of shareholders may participate in the meeting by means of telephone or other communication facilities that permit all persons participating in the meeting to hear each other and a person participating in such a meeting by those means is deemed for the purposes of the Act and this by-law to be present at the meeting.

Added: Section 52. Electronic Communication To the extent permitted by the Act, and notwithstanding any other provision of this By-law:

- a) meetings of shareholders may be held entirely by means of telephonic, electronic or other communication facility, including teleconferencing, video conferencing, computer link, webcasting and other similar means;
- b) any notice or document required by the Act, the articles or the by-laws to be sent to any shareholder or director may be delivered electronically, including by facsimile, electronic mail, CD-ROM, diskette, the Internet or other electronic means;
- c) proxies may be deposited and tabulated by telephonic, electronic or other communications means; and
- d) a shareholder entitled to vote at a meeting of shareholders may vote by means of a telephonic, electronic or other communication facility.