



QSOUND LABS, INC.

**MANAGEMENT PROXY CIRCULAR
FOR THE ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON JUNE 19, 2003.**

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 Meeting of Shareholders of the Company ("Meeting"). The Meeting will be held on Thursday, June 19, 2003 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 Meeting accompanying this Information Circular ("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 their nominee to attend and act and on their 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 in writing signed by the shareholder or their 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 7,156,074 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 April 30, 2003 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 – NON-REGISTERED SHAREHOLDERS

The information set forth in this section is of significant importance to a substantial number of shareholders who hold Common Shares through intermediaries (such as brokers, banks, trust companies and securities dealers) and not in their own name (“Non-registered Shareholders”). Only registered shareholders, who hold shares of the Company in their own names, or their duly appointed proxyholders can attend and vote at the Meeting. Intermediaries or their third party mailing services, such as ADP Investor Communications Services, mail proxy materials and seek voting instructions from Non-registered Shareholders. **A Non-registered 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 Non-registered Shareholders to vote via telephone or the Internet. Unless specifically stated otherwise, all references to shareholders in this Notice of Meeting, Information Circular and the accompanying form of proxy are to registered shareholders.

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

Management intends to nominate, and the individuals named in the accompanying form of proxy intend to vote for, the persons listed below for election as directors of the Company. Each director who is elected will hold office until the close of the next annual meeting of shareholders, or until his successor is elected or appointed, unless his 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	16,000
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.

STATEMENT OF EXECUTIVE COMPENSATION

Compensation

The following table sets forth, for the periods indicated, information concerning the compensation earned by the Chief Executive Officer and the three most highly compensated executive officers of the Company in 2000, 2001 and 2002:

Summary Compensation Table

Name & Principal Position	Annual Compensation			Long Term Compensation	All Other Compensation
	Year	Salary	Other Annual Compensation	Common Shares Under Options Granted	
David Gallagher President & CEO	2002	159,192 U.S.	nil	100,000 ¹	nil
	2001	148,200 U.S.	nil	461,000	nil
	2000	155,500 U.S.	nil	nil	nil
Francis Munoz Executive Vice President	2002	100,000 Cdn.	nil	75,000 ²	nil
	2001	100,000 Cdn.	nil	66,435	nil
	2000	100,000 Cdn.	nil	nil	nil
Robert Starr Vice President Business Development	2002	59,277 U.S. ³	nil	200,000 ⁴	
Joanna Varvos Corporate Secretary	2002	107,100 Cdn.	nil	nil	nil
	2001	107,100 Cdn.	nil	97,000	nil
	2000	104,550 Cdn.	nil	nil	nil

¹ 50,000 of these options have vested and 50,000 options vest September 30, 2003.

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

³ Mr. Starr joined the Company on June 17, 2002 at an annual salary of \$110,000 U.S.

⁴ These options are subject to vesting as follows: 66,666 options vest July on 1, 2003 and 5,000 options vest per month thereafter.

Options

The following table sets out details of options to purchase Common Shares granted to executive officers of the Company during 2002.

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 Gallagher President & CEO	100,000 ¹	22%	\$1.65 U.S.	\$1.65 U.S.	December 30, 2007
Francis Munoz Executive Vice President	75,000 ²	17%	\$0.57 U.S.	\$0.57 U.S.	August 9, 2007
Robert Starr Vice President Business Development	200,000 ³	45%	\$0.62 U.S.	\$0.62 U.S.	June 30, 2008 to July 17, 2012

¹ 50,000 options have vested and 50,000 options vest September 30, 2003.

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

³ These options are subject to vesting as follows: 66,666 options vest July on 1, 2003 and 5,000 options vest per month thereafter.

Pension Plan

Mr. Gallagher participates in a registered individual pension plan ("Pension Plan"). The following table sets forth the annual pension payable to Mr. Gallagher under the terms of the Pension Plan.

Remuneration	Years of Service
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\$	10	15	20	25
159,192 U.S.	24,000 Cdn.	36,000 Cdn.	49,000 Cdn.	61,000 Cdn.

As at December 31, 2002, 14 years of service have been credited under the Pension Plan for Mr. Gallagher. Benefits under the Pension Plan, which are based on 2% of salary to the yearly maximum of allowable under the Income Tax Act and indexed after 2004, are computed on a straight life annuity basis and are not subject to any deductions for social security or other offset amounts.

Employment Contracts

The Company has entered into employment contracts with Messrs. David Gallagher, Francis Munoz and Robert Starr. Each of these employment contracts provides for a base salary and stock options. Mr. Starr's contract provides for bonuses upon achievement of performance criteria to be agreed upon from time to time by Mr Starr and the Company. Mr. Gallagher's contract provides for discretionary bonuses if approved by the Compensation Committee, 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, if there is a change in control of the Company and Mr. Gallagher elects not to continue his employment, and in the event of death or disability Mr. Gallagher is entitled to a lump sum payment equal to the greater of salary for the unexpired term of the employment agreement or one year. A lump sum contribution to fund the Pension Plan is also payable in the foregoing circumstances and in the event of retirement between the ages of 60 and 65. Mr. Gallagher's employment contract is subject to renewal on September 30, 2004. If there is a change in control of the Company Messrs. Gallagher, Munoz and Starr are entitled to vesting of any unvested options.

Report of the Compensation Committee

Objectives 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, long term incentive stock options and bonus plans is used to provide both a competitive rate of base remuneration and an incentive to achieve corporate goals.

Salary The Compensation Committee determines the salary component of the compensation package for executive officers 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 companies of similar size and scope of business and establishes base salaries at similar levels.

Options 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 is determined by the Board or Committee when the option is granted, but 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.

In determining the size and vesting provisions of option grants, the Compensation Committee considers the individual's performance, achievement of objectives, responsibilities, base salary level, previous option grants and the overall corporate performance of the Company.

Bonus Plans Bonus plans are established from time to time and payment of bonuses is dependent upon achievement of performance objectives related to revenue or increased shareholder value.

Compensation of CEO 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

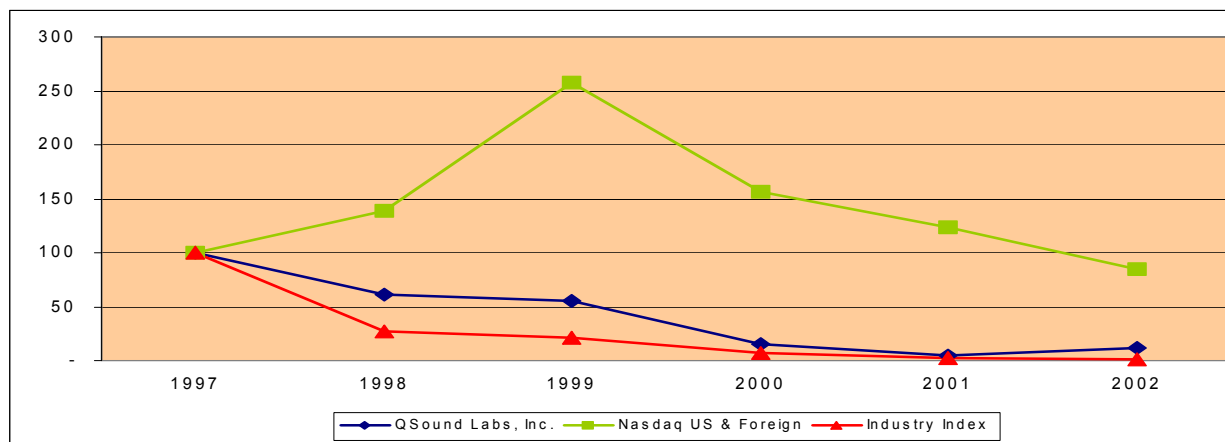
Since January 1, 2002 no director, executive officer or senior officer of the Company has been indebted to the Company, except for routine indebtedness.

Compensation of Directors

The Company generally compensates directors through the grant of options. There were no arrangements for payments, and no compensation was paid and no options were granted in 2002, 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, 1997) with the cumulative total return of the Nasdaq US & Foreign Index and an index of four 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 two e-commerce companies (Network Commerce Inc. and Imergent Inc.). 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.



	1997	1998	1999	2000	2001	2002
QSound Labs, Inc.	100.00	61.52	55.34	14.89	4.63	11.80
Industry Index	100.00	27.33	21.62	6.56	2.33	0.79
Nasdaq US & Foreign	100.00	138.48	257.97	156.09	123.11	84.77

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 Meeting of Shareholders. However, if any other matter properly comes before the Meeting, the accompanying form 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: April 30, 2003

“David J. Gallagher”
President and CEO