

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

VERIDICOM INTERNATIONAL INC

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES AND EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2003

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

Commission File Number 000-12382

VERIDICOM INTERNATIONAL, INC.
(formerly Alpha Virtual, Inc.)

(Name of small business issuer in its charter)

Delaware	95-2577731
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
3800-999 3rd Avenue	98104-4023
Seattle, Washington	(Zip Code)

(Address of principal executive offices)

(206) 224-6206
(Issuer's telephone number)

Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act: Common Stock,
\$.001 Par Value

Check whether the issuer (1) filed all reports required to be filed by
Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such
shorter period that the registrant was required to file such reports), and (2)
has been subject to such filing requirements for the past 90 days. Yes No X
--- ---

Check if there is no disclosure of delinquent filers in response to Item 405
of Regulation S-B is not contained in this form, and no disclosure will be
contained, to the best of the registrant's knowledge, in definitive proxy or
information statements incorporated by reference in Part III of this Form 10-KSB
or any amendment to this Form 10-KSB.

Issuer's revenues for its most recent fiscal year: \$281,997

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Aggregate market value of the voting stock held by non-affiliates computed by
reference to the closing price at which the Common Stock was sold on the
Over-the-Counter on May 10, 2004: \$41,083,108. The voting stock held by
non-affiliates on that date consisted of 7,825,354 shares of Common Stock.

Number of shares outstanding of each of the issuer's classes of common stock
at May 10, 2004:

Common Stock: 15,075,532

Transitional Small Business Disclosure Format (check one) Yes No

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Report contains certain forward-looking statements, including the plans and objectives of management for the business, operations, and economic performance of Veridicom International, Inc. (formerly Alpha Virtual, Inc.) (the "Company"). These forward-looking statements generally can be identified by the context of the statement or the use of words such as the Company or its management "believes," "anticipates," "intends," "expects," "plans" or words of similar meaning. Similarly, statements that describe the Company's future operating performance, financial results, plans, objectives, strategies, or goals are forward-looking statements. Although management believes that the assumptions underlying the forward-looking statements are reasonable, these assumptions and the forward-looking statements are subject to various factors, risks and uncertainties, many of which are beyond the control of the Company. Accordingly, actual results could differ materially from those contemplated by the forward-looking statements.

PART I

ITEM 1. DESCRIPTION OF BUSINESS

Overview

Veridicom International, Inc., a Delaware corporation (hereinafter sometimes referred to as the "Company," "we," and "us"), incorporated on September 9, 1987, under the name Perceptronics, Inc. From our inception through fiscal 2000, we were engaged in the design, development and manufacture of computer-based simulation systems for training and decision support. These systems included both hardware and software and are used to train personnel in the use of various military and commercial equipment. Much of our simulator business was in the foreign defense industry. The tightening of defense budgets worldwide, combined with the continuing consolidation and competition in the defense industry, negatively impacted the growth and profit opportunities for small companies such as ours. As a result, in July 2000, we refocused our business. In connection with the refocus, we sold the assets related to our computer based simulation system line of business to a developer and manufacturer of specialized defense simulation products. We then commenced development of commercial products in the area of Internet collaboration.

However, we lacked the funds necessary to exploit our developed products. As a result, in October 2002, we entered into a license agreement with our then principal stockholder, Global Alpha Corporation ("GAC") pursuant to which GAC was granted an exclusive license to our software and systems commonly referred to as the "IC3D Framework" (the "System"). The System encompassed substantially all of our software including software developed to support multi-user online collaborative interactivity in a broad variety of applications employing a variety of virtual media over a number of networks including the Internet and intra-nets. Under the license agreement, GAC agreed to pay us a license fee of 10% of the revenue generated from the sale or use of the System up to \$1.0 million, 9% up to \$2.0 million, 8% up to \$3.0 million and,

thereafter, 7% of the revenue generated.

In connection with the license agreement, in October 2002 we terminated substantially all of our employees, and except for our license agreement, ceased all of our prior operating activities. Our principal activities became directed to reducing our liabilities and seeking possible acquisitions. Management's

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objective was to acquire an operating company that has experienced management and the potential for profitable growth in exchange for our securities.

On April 28, 2003, we entered into an Agreement and Plan of Merger with EssTec, Inc., a privately-held Nevada corporation ("EssTec"). In accordance with the merger, on May 8, 2003, we, through our wholly-owned subsidiary, Alpha Acquisition Corporation, a Nevada corporation, acquired EssTec in exchange for 4,276,162 shares of our common stock. The transaction contemplated by the agreement was intended to be a "tax-free" reorganization pursuant to the provisions of Section 351 and 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

On May 8, 2003, in connection with the EssTec merger, we changed our fiscal year end from March 31 to December 31.

On November 25, 2003, we entered into an Agreement and Plan of Merger with Veridicom, Inc., a privately-held California corporation ("Veridicom"). In accordance with the merger, on November 25, 2003, we, through our wholly-owned subsidiary, A/V Acquisition Corporation, a Nevada corporation, acquired Veridicom in exchange for 3,500,000 shares of our common stock; 3,250,000 shares were issued to the holders of Veridicom stock and 250,000 shares were issued into escrow to cover indemnification obligations, if any, of Veridicom. The transaction contemplated by the agreement was intended to be a "tax-free" reorganization pursuant to the provisions of Section 351 and 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

Subsequent Events

On January 16, 2004, we entered into an Agreement and Plan of Merger with Cavio Corporation, a privately-held Washington corporation ("Cavio"). The merger became effective on February 20, 2004 following a special meeting of Cavio's stockholders. In accordance with the merger, on February 20, 2004, we, through our wholly-owned subsidiary, A/VII Acquisition Corporation, a Nevada corporation, acquired Cavio in exchange for 5,000,000 shares of our common stock. The transaction contemplated by the agreement was intended to be a "tax-free" reorganization pursuant to the provisions of Section 351 and 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

The members of our Board of Directors now consist of Paul Mann, Saif Mansour, Bill Cheung and Gyung Min Kim. The following individuals constitute our officers, key employees and advisors:

Paul Mann, President and Chief Executive Officer. Mr. Mann has held a variety of international posts throughout Europe including: Sales and Marketing Manager, Erith PLC, England; National Sales and Marketing Director, Eurodata Limited, UK; and Sales and Marketing Director ASB Grunland, Ludwigsburgh, Germany. In Canada, Mr. Mann has served as President of an international business referral service linking global trade opportunities, and has worked to spearhead the international sales and marketing initiatives of The Business Development Corporation. Mr. Mann's background in international trade and international business development led to the creation of Cavio and since its inception in 1998, he has been its Chief Executive Officer.

Bashir Jaffer, Chief Financial Officer. Mr. Jaffer has been a member of the Canadian Institute of Chartered Accountants since 1976. He is also a Fellow

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of the Institute of Chartered Accountants of England and Wales. From 1998 to 2003, Mr. Jaffer was the owner and President of a travel management company. From 1983 to 1998, Mr. Jaffer was a partner at a firm of chartered accountants in located in Vancouver, British Columbia. Prior to that, Mr. Jaffer worked for a public company and an international firm of chartered accountants located in London, England. Mr. Jaffer also worked at KPMG (formerly Thorne Riddell) and PricewaterhouseCoopers (formerly Coopers & Lybrand) both located in Vancouver, British Columbia.

Terry Laferte, SVP, Technical Operations. Mr. Laferte is a software engineering expert with a 20-year track record in IT team leadership and project management. From 2000 to 2004, Mr. Laferte was responsible for leading the development of technology applications for Cavio. From 1993 to 2000, Mr. Laferte managed all software development for the Canadian Securities Registration Systems located in Vancouver, British Columbia. From 1986 to 1993, Mr. Laferte was a senior consultant with SHL System house Ltd. Located in Edmonton, Alberta.

Cameron Adams, Manager Marketing & Business Development. From 2001 to 2004, Mr. Adams guided the product and marketing strategies of Cavio. From 2000 to 2001, Mr. Adams served as VP, Marketing at Aerovistas.net, Inc., an Internet start-up, located in Vancouver, British Columbia, serving transportation and aviation clients. Since 1998, Mr. Adams has also served as President of his own private consulting practice, Airport Financial Services, Ltd., where he provides business development and planning services.

Roger Brandt, Chief Technical Advisor. Mr. Brandt has more than 25 years experience in software engineering. Mr. Brandt joined Veridicom, Inc. in 2000 in the role of e-commerce architect and progressed to the post of Director of Software Engineering. Prior to 2000, Mr. Brandt was president and system architect of Bay-area consulting firms Object Works, Inc. and Signorum, Inc. where he was chiefly responsible for architecting an e-commerce gateway for IntelliPay for HP, a database for the Visa/TPS (Vital) credit card authorization and capture system, retail point of sale networks and credit card authorization and capture systems. Mr. Brandt has also worked as a software developer at Tandem Computers. Mr. Brandt holds a Bachelor's Degree from Valparaiso University and has completed the coursework portion of his Masters Degree in Mathematics from California State University, Hayward.

We officially changed our name from Alpha Virtual, Inc. to Veridicom International, Inc. on February 23, 2004.

Following the name change, shares of our common stock are traded under the symbol "VRDI" on the OTC Bulletin Board (the "OTCBB").

On April 16, 2004, Messrs. Al-Zarooni and Mirza resigned from the Board of Directors.

Description of the Company Post-Merger

General

Following the merger with Cavio, we realigned our business strategy to leverage the core operations of each of our subsidiaries. We have three operational subsidiaries: Cavio, Veridicom and EssTec.

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Since March 1, 2004, we have undertaken a comprehensive review of all pre-merger operations. This on-going review has included all facets of operations, including the supply chain, product development, previous sales and marketing agreements, internal controls and reporting systems. Based on this review, we have decided that a thorough reorganization of all of the companies is warranted, including a re-evaluation of the supply chain, method of manufacture, product strategy and other organizational procedures. Although distracting in the short-term, we believe that this review is in the long-term best interests of the Company and our stockholders. As part of the reorganization, we closed our Sunnyvale, California offices on April 15, 2004 in favor of a more cost effective and efficient development environment in the Pacific Northwest.

Our core strategy is to build a comprehensive authentication suite of products and services, with market-specific applications that leverage the core identity management infrastructure. We believe there is a significant need for an auditable, scalable product solution capable of linking an individual to a specific electronic event or transaction -- a strong authentication solution that safeguards legitimate interests and adheres to emerging electronic commerce legislation. Our identity management solutions employ public key infrastructure and a "virtual token" based technology to control, audit and monitor the identification processes for electronic events and transactions.

We will focus on transforming the market for biometrics and growing the market beyond traditional security applications. In particular, the strategy will be to expand the traditional security offerings to include security and convenience value propositions for commercial or point-of-sale transactions. By developing customizable applications as well as authentication technology, we are endeavoring that our brand become synonymous with secure, authenticated transactions.

We offer a solution that we believe not only addresses an organization's current requirements for stronger and more scalable authentication and authorization, but also addresses a future vision for security, via a combination of centralized and distributed identity repositories and administration tools. Utilizing biometric technology, we provide organizations with an authentication solution that also provides users with increased convenience by reducing the reliance on passwords.

We have a strong management team with combined experience in sales and marketing, vertical market knowledge, technology development, and hardware integrated circuit design. In addition, we will have access to a network of

advisors and consultants with significant expertise in technology, government, security, and financial services. These advisors will be invited to form a more formal advisory board to provide strategic direction for products and services, and, they may be leveraged to provide targeted business development contacts in key target markets.

There are several factors that management believes will provide new opportunities or present new challenges for us. We believe that regulatory, technological, and cultural changes will create new opportunities. International distribution arrangements are currently in place, while new channels are being developed.

Product and Services Overview

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Authentication vs. Identification

Webster's Dictionary defines the term "Identification" as follows: evidence of identity; something that identifies a person or thing. With biometric technology, identification is the process of identifying individuals strictly from their biometric scan from a group of hundreds, thousands, or millions of entries.

Webster's Dictionary defines "Authentication" as follows: To establish the authenticity of; prove genuine. Authentication of a biometric sample or an individual is confirmed on a one-to-one basis, by comparing a pre-registered template to a person presenting a live finger or other live biometric.

In a commercial environment, it is more feasible, more convenient, and users can be authenticated more quickly on a one-to-one basis via authentication.

Unique Minutia Extraction

Privacy is a paramount concern to us, and as discussed further, it addresses individual privacy concerns through a variety of technology solutions and business rules. One of the primary means of addressing privacy concerns surrounding the use of fingerprints or other biometric samples is the creation of a minutia. Via a complex set of proprietary algorithms and computer processes, we extract a mathematical representation of a biometric sample (i.e., fingerprint) and stores this data in a secure file (minutia file). We do not store biometric images. This alleviates concerns surrounding the storage of personal biometric information, and further protects an individual's privacy by making it virtually impossible for a hacker or malicious computer code to recreate an individual's fingerprint from a minutia file.

Identity Management Infrastructure

Our core strategy is to build a comprehensive authentication suite of products and services, with market-specific applications that leverage the core identity management infrastructure.

We believe that there is a significant need for an auditable, scalable and legally recognized product solution capable of linking an individual to a specific electronic event or transaction -- a strong authentication solution that safeguards legitimate interests. Our identity management solutions employ public key infrastructure and a "virtual token" based technology to control, audit and monitor the identification processes for electronic events.

- o Deployment of biometric technology provides irrefutable authentication and validation of a user's identity eliminating the sole reliance on the vulnerable password/PIN infrastructure;
- o Enterprise middleware systems can move authenticated events securely in real-time over the Internet through a "trusted path";
- o Creating a non-reputable and legally recognized "card-present" scenario for events conducted for previously anonymous Internet credit card transactions;

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- o Allowing for the audit and assignment of a digital signature to any electronic event proving without question the time and origin of an event and actual event occurrence;
- o Authenticating instead of identifying false accept and false reject rates approach zero and scalability is achieved; and
- o Our portfolio allows organizations to leverage investments in existing IT infrastructure.

We intend to offer authentication services on a hosted basis. Corporations, governments, or other enterprises that do not wish to invest in a full server based biometric infrastructure may choose to have us manage this service on their behalf. We maintain a fully redundant hosting infrastructure at its data center that can accommodate multiple customers and their users. The additional advantage of this solution is that we maintain our expertise in managing identities and biometric information, relieving organizations of this responsibility.

It is expected that the authentication service will be available on a subscription basis in addition to a one-time setup fee. In addition, it is expected that this service will be made available through certified third party systems integrators. It is expected that these integrators will typically offer a variety of hosted services to large organizations and therefore have the capability and resources available.

We have an extensive portfolio of products and services that are currently available to customers, or that are available subject to customization and specific requirements definition. However, we realize the need to continue an aggressive product development strategy to meet the needs of the marketplace and advance the adoption of biometrics. Management believes that in general the industry faces continuous pressures to reduce the cost of devices and solutions in order to provide a greater ROI to organizations. As such, we endeavor to deliver additional products that provide a high degree of application flexibility to the end user. It is expected that we will build our products to meet the needs of both current and future state-of-the-art technology and will incorporate third party technology solutions where needed.

For example, we believe that the rollout of 3G wireless and Bluetooth infrastructure creates a more stable and secure communications protocol to offer wireless functionality. We are in the process of developing a variety of solutions to accommodate mobile users and mobile applications for biometrics. Leveraging core expertise in the enrollment, verification and application of an individual's biometric information, it is expected that we will work with partners to develop applications for wireless phones, PDA's, tablet PC's, point of sale, and other devices.

The following table outlines our current and short-term product portfolio:

Product -----	Description -----
FPS200	Solid state silicon sensor, 256 x 300 array
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FPS250	Solid state silicon sensor, lower cost, less surface area than FPS200 sensor
FPS300	Swipe sensor, low cost, low area sensor for mobile devices
G2	Next generation desktop peripheral with new plastic housing
G2-CRFID	62 peripheral with RFID capability
G2-CSMART	G2 peripheral with smart card reader
G2-CMAG	G2 peripheral with magnetic card reader
Matchboard - wired	Standalone fingerprint recognition system with trusted sensor crypto capability, FPS250 sensor, KVM
Matchboard-wireless	Matchboard as above with wireless connectivity
Personal Authentication Device (PAD)	Mobile authentication device with crypto, FPS250, KVM, wireless, and self-powered
Middleware	
Product -----	Description -----

Veridicom Authentication Server	Robust Enterprise level authentication server for Windows, Linux platforms. Sun/Solaris support planned.
VAS Hosted Service	Hosted authentication service from our data center
VAS	Appliance Less robust authentication server for smaller organizations, available for 1000 or 5000 users
SDK	SDK's available for all products for customer customization and OEMs.

Applications

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Product -----	Description -----
Digital	Signature Biometric signature attached to transactions or events. This provides significantly more secure signing capabilities than current PIN-based certificates.
VPAS	Veridicom Personal Authentication System. This application is a bundled solution that allows PC or network logon, and secure logon to web site or web applications. It is expected that this will be a shrinkwrapped product to deployed at retail locations.

Intellectual Property

With a pedigree born out of Lucent Technologies and Bell Labs, we have several international patents for our technology, as well as several pending patent applications.

U.S. Patents Issued

U.S. Patent No. -----	Title -----
5,991,408	Identification and Security Using Biometric Measurements
6,016,355	Capacitive Fingerprint Acquisition Sensor
6,049,620	Capacitive Fingerprint Sensor With Adjustable Gain
6,330,345	Automatic Adjustment Processing For Sensor Devices
6,331,452	Method of Fabricating Integrated Circuit Package with Opening Allowing Access to Die
6,546,122	Method For Combining Fingerprint Templates Representing Various Sensed Areas of a Fingerprint to Derive One Fingerprint Template Representing The Fingerprint
6,538,456	Capacitive Fingerprint Sensor with Adjustable Gain
6,535,622	Method for Imaging Fingerprints and Concealing Latent Fingerprints
6,538,456	Capacitive Fingerprint Sensor with Adjustable Gain

Patent Applications

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U.S. Patent App. Serial	Title
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Market Overview

Industry Overview

We believe that in the wake of the tragic events of September 11 and the heightened security risks posed by the prospect of random acts of terrorism, biometrics and the field of identity management are at the forefront of technological development. However, with such an immediate and pressing need, we believe that the authentication and security environment is, surprisingly, in a state of disarray.

We believe that the tendency to-date has been for vendors to develop proprietary software and hardware that focuses on one segment of the identity verification and management equation. Because of their proprietary nature, many biometric technology products are inconsistent, impractical or incompatible with not only the existing 'real world' needs and systems, but also other biometric products.

Fingerprint recognition technology continues to dominate the market for biometric authentication, and will continue to do for the foreseeable future due to its combination of accuracy, ease of use, and cost effectiveness.

We believe that there are several increasingly important trends positively affecting the need for biometric technology:

- o the need to protect increasing amounts of sensitive and private information. Increased digitization of travel, medical, financial and security information requires stronger, less fallible modes of user authentication;
- o the increased amount of information has resulted in increased access requirements for corporate and personal uses. Physical and logical access requirements demands a more streamlined approach to identity management;
- o increased travel security requirements demand leading edge identification technology to improve security while streamlining the travel process; and
- o information access requirements have increased the proliferation of passwords. Unfortunately, as password requirements increase, the costs of managing passwords becomes prohibitive.

Given the trends described above, we believe that there are inevitably going to be organizations that believe they can offer a variety of services or products that incorporate biometrics and may compete with our technology.

Competitive Overview

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As the opportunities for strong authentication solutions increases, so will the competition. With significant brand recognition, patent portfolio, and technology solutions, we believe that we are well protected against increased competition. Furthermore, we believe that increased competition indirectly validates the business model and market potential for our solutions. The following companies have been identified as potential competitors due to their biometric focus and product mix.

Identix - Provides fingerprint and facial recognition technology after having merged with Visionics. Their main target markets appears to be the public sector, including law enforcement and government applications. They provide live scan booking equipment for government agencies that captures fingerprint images for background checks, criminal booking for law enforcement, etc.

Bioscrypt - Provides mainly physical access solutions via end user products, software for their equipment, as well as OEM modules for third party integrators. They do not currently provide desktop peripherals, enterprise applications or other software.

Fingerprint Cards AB - Based out of Sweden, Fingerprint Cards only manufactures OEM hardware and sensors. They conduct business through their partners of manufacturers and other OEM's, not through direct sales or direct customer relationships. They have a variety of sensors, including a swipe sensor and sensor embedded on USB memory module.

SAGEM - Large European provider of fingerprint recognition systems. They have a significant presence in live booking systems for government agencies and law enforcement around the world.

STMicrosystems - Purchased several licenses and patents from Veridicom regarding desktop peripherals. They also have a swipe sensor they are targeting at the mobile device manufacturers.

Atrua - Several former Veridicom employees formed this company in Dec 2000/early 2001. They are focusing on authentication for mobile devices and mobile transactions using their swipe sensor. They have also developed their own algorithms and software for managing authentications in a transaction environment.

Authentec - Manufacturer of solid state fingerprint sensors. They focus on hardware only, providing peripherals and sensor chips to OEM's. They do not provide software, middleware or other applications for end users.

S-Travel. This is an initiative sponsored by the European Union and Switzerland for a registered passenger program using biometrics. SITA is the project manager and major participant in this project. In addition, Biowise, a small biometrics company in Belgium provides the biometrics kiosks for iris recognition and fingerprint sensors. It is in the pilot stages through Spring, 2004 involving Milan airport and Alitalia airlines. This project uses iris recognition from Panasonic and fingerprint sensors from SAGER.

In addition to the above-mentioned entities, it is conceivable that we could face future indirect competition and market encroachment from companies such as VeriSign International and RSA, which currently offer alternative security and digital identity solutions not based on biometrics.

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However, these organizations could also present interesting partnering opportunities via bundled service offerings.

Market Influences

There are several factors that will provide new opportunities or present new challenges for us. We believe that the primary market influences relate to regulatory, technological and cultural changes.

Regulatory Changes

Regulatory issues will continue to change the landscape for our technology. We believe that many of these legislative changes will present significant opportunities, such as:

- o HIPA - Health Insurance Portability and Accountability Act governs the privacy of health information, and securing access to that information. We believe that biometrics is well suited to this task.
- o US-VISIT - The US Government is mandating that all visitors to the US be fingerprinted and have a digital photo taken. By the end of 2004, all passports will be required to have a biometric template (fingerprint) and digital photo.
- o Department of Defense - The US and other defense agencies are increasing security requirements at facilities and increasing security surrounding information assets. We believe that biometrics is well suited to meeting this challenge.
- o National ID cards - Canada, UK, US, Italy, Australia, Bosnia, and other nations are evaluating national ID card programs. Many of these nations are also considering adding biometrics, and fingerprints in particular, as components of that ID card program.
- o Electronic Voting - Many municipal, regional, and national governments are contemplating and/or implementing electronic voting systems to avoid the voting debacle that plagued the 2000 US presidential election. As such, there is a strong need to authenticate voters for onsite and remote electronic voting.

Technological Changes

The biometrics industry is rapidly changing and we aim to remain at the leading edge of technology. In addition, we will focus on inventing, developing, and commercializing those technologies that we believe offer additional value to our customers. We believe that the future will mandate incorporation of multiple biometric technologies (fingerprint, facial, iris, voice, etc.) under a single solution. We will actively sell to source and/or acquire best of breed technologies as dictated by customer and/or corporate requirements.

Cultural Changes

Biometrics is still a new technology to the majority of consumers and employees around the world. However, we believe that recent mandates by the U.S. government requiring biometrics in passports and other security initiatives are facilitating public acceptance and rollout of biometrics. In addition, as information security becomes increasingly important to an organization's risk management policies, we believe that biometrics is getting increased attention for implementation at workplaces. As workplace enrolment increases, we believe that personal use of biometrics will increase accordingly. In addition, our suite of applications is targeted to drive more rapid adoption rate of biometric-based solutions.

Market Segments

Financial Services

The financial services industry has been slow to adopt biometrics as a core service offering. We believe that this is due to a number of factors, including, cost, customer demand, risk vs. ROI of implementation, and availability of applications. We aim to change this scenario by offering financial services firm a variety of solutions aimed at increasing security; increasing convenience and offering a variety of authentication applications suitable for a broad organizational rollout.

We will initially target those financial institutions that have the scale and market influence to push biometrics to their markets, as well as those institutions that are known for differentiating their service offering by providing leading edge technology and services. The strategy will be to concurrently encourage use of biometrics by other industries, encouraging the financial institutions to take notice.

Travel & Transportation

The travel industry continues to feel the effects of September 11 and the resulting lag in air travel and commensurate slowdown in the economy. Business travel is down significantly and there is continuing downward pressure on travel fares. In light of the ongoing slump, airlines and other travel providers are looking for new ways to generate revenue and increase both safety and the convenience aspects of travel for their passengers.

We will propose our solution as a business opportunity, not just a security solution. It is expected that travelers will be charged users and/or transaction fees by the travel provider in exchange for additional benefits gained by using the system.

Target customers within this market segment include travel agents, travel reservations, airlines, airports, hotels, and other travel service providers.

We, through our subsidiary Cavo, currently have an agreement with Uniglobe, which is part of an international travel service provider, to pilot its technology for the purposes of confirming individual client itineraries and to approve the processing of travel service purchases with client customized payment instructions. Following the successful rollout, it is expected that this model will be expanded to include other industry travel partners such as airlines, hotels, etc.

Public Sector

We believe that there are many opportunities in the public sector, including eGovernment, health care, and education. We believe that the authentication product suite has far reaching implications for members of this unique but broad-based environment.

Specifically, we believe that our products are ideally suited to mimic traditional dynamic environments, for example, in the fields of electronic education, and industry accreditation. The authentication suite overcomes previously unaddressed variables including geographic diversity, can handle multiple users interacting in real-time and can control varying levels of clearance and access to allow for the appropriate flow of information.

While we recognize that government opportunities offer potential for future sales, we also recognize that they generally yield a longer sales cycle to close. To that end, we are focusing on establishing strategic relationships and partnerships with a variety of public sector organizations and allied complementary markets to further our efforts within this market. To date, we are successfully established key relationships with senior level individuals in national and regional government agencies in a top down approach in order to

solidify and speed product acceptance and to build a multi-agency, cross-jurisdictional foothold.

Retail

We intend to actively pursue partnerships with leading retail organizations for product distribution purposes. It is expected that selected retailers will have the ability to sell components of the Authentication Service bundle and accordingly to share in revenues generated from the product/service sale. It is expected that additional transaction related fees will generally not be shared with partners as support and ongoing customer relationships will be managed by us.

The strategy in pursuing the retail market is twofold: First, we believe that customers will be attracted to the VPAS product as a means of improving security and convenience for PC and web logons. As their comfort with the technology increases, we believe that these users will gravitate towards using other services within the Veridicom Authentication Service (digital signatures, authenticated payment, etc). Second, as more scanners get deployed into the market, we believe that other organizations could be inclined to adopt the Veridicom International solution to keep up with the demands of their customers.

Distribution

We will approach our markets via a combination of direct sales and partnerships with international systems integrators and resellers. Some distributors are already in place as they were inherited from our previous structure, and, as such, we are currently in the process of evaluating the performance and suitability of those partners as we move forward.

Direct Sales

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We have a number of direct sales representatives in various regions around the world. These representatives will be responsible for both direct sales to strategic customers as well as supporting the network of channel partners and OEM relationships in various geographic regions.

Development and Distribution Partners

Partnerships inherited from Veridicom will be re-evaluated based on performance, strategic value, future potential and/or additional value-add. Software Development Kits will be available to enable integration partners, development partners, and OEM's to develop specific applications or other devices around our product family.

OEM Integration

An impediment to the aggressive growth of fingerprint sensors has been the need to acquire a separate fingerprint peripheral. Although we will continue to design and produce leading edge peripherals, we will also endeavor to integrate our sensors and authentication software with OEM's and computer manufacturers. We previously integrated fingerprint sensor chips with Acer, NEC, and IBM notebooks. In addition, we believe that further opportunities exist by integrating sensor chips with mobile devices such as PDA's and mobile phones.

Promotion

A variety of strategies will be employed to promote our product and service portfolio. These initiatives include:

- o Bundling of our services;
- o Bundling with third party applications and software;
- o Joint partnerships with leading industry organizations;
- o Trade shows;
- o Leverage personal contacts and utilize network of key industry advisors; and
- o Leverage network of investment brokers and their clients. Transition investor support to market support.

Employees and Labor Relations

At December 31, 2003 we had 23 full-time employees. At May 10, 2004, we had 43 full-time employees, as well as seven contract employees on monthly retainers and/or commissions.

We believe our labor relations are good. However, five former employees of Veridicom, Inc. (which we acquired in November 2003) have filed claims against us with the Labor Commissioner in the State of California. The former employees allege that we owe unpaid wages, salaries and vacation pay for various periods between July 2000 to November 2003 amounting to a total of \$112,113.70. The validity of the claim is being reviewed by our legal advisors.

Legislative Actions and Potential New Accounting Pronouncements

In order to comply with the newly adopted Sarbanes-Oxley Act of 2002 and proposed accounting changes by the Securities and Exchange Commission, we may be required to increase our internal controls, hire additional personnel and additional outside legal, accounting and advisory services, all of which could cause our general and administrative costs to increase. Proposed changes in the accounting rules, including legislative and other proposals to account for employee stock options as compensation expense among others, could increase the expenses that we report under Generally Accepted Accounting Practices and could adversely affect operating results.

ITEM 2. DESCRIPTION OF PROPERTIES

Corporate Headquarters. Our executive offices are located at 3800-999 3rd Avenue, Seattle, Washington. We have an agreement for use of office space at this location under an annual rental agreement. Under the terms of the agreement, we have the option to increase or decrease office space utilization on a monthly basis.

We also maintain an office in Canada located at 21 Water Street, 5th Floor, Vancouver, British Columbia. We lease approximately 8,200 square feet of office space located at this location under a three-year lease, which expires in February 2007.

We also maintain short-term tenancies for office space located in Washington, DC., London (UK) and Lahore (Pakistan).

All of our facilities are in good repair.

We believe that our existing facilities will be adequate to meet our needs for the foreseeable future. Should we need additional space, management believes it will be able to secure additional space at commercially reasonable rates.

ITEM 3. LEGAL PROCEEDINGS

Five former employees of Veridicom, Inc. (which we acquired in November 2003) have filed claims against us with the Labor Commissioner in the State of California. The former employees allege that we owe unpaid wages, salaries and vacation pay for various periods between July 2000 to November 2003 amounting to a total of \$112,113.70. The validity of the claim is being reviewed by our legal advisors.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of our security holders during the fourth quarter ended December 31, 2003.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Market for Common Stock; Related Information

Our common stock is traded on the OTCBB under the symbol "VRDI". Prior to February 23, 2004, our common stock traded under the symbol "AVRT". The following table sets forth, for the fiscal quarter indicated, the high and low sales price per share sales prices for the common stock, as reported by OTCBB:

	High 1	Low 1
	-----	-----
2002		
Jan. 1 - March 31	\$ 12.60	\$ 4.20
April 1 - June 30	\$ 7.70	\$ 2.80
July 1 - Sept. 30	\$ 4.20	\$ 0.10
Oct. 1 - Dec. 31	\$ 3.50	\$ 0.10
2003		
Jan. 1 - March 31	\$ 3.50	\$ 1.06
April 1 - June 30	\$ 6.00	\$ 2.94

July 1 - Sept. 30	\$ 7.00	\$ 1.20
Oct. 1 - Dec. 31	\$ 6.00	\$ 3.45

1 - The high and low per share prices reflect our stock splits that occurred on November 14, 2002 (1:5 stock split) and April 23, 2003 (1:7 stock split).

On May 10, 2004, there were 1,013 holders of record of our common stock. For information concerning historical dividends and our dividend policy, see "Item 6--Management's Discussion and Analysis or Plan of Operation--Dividends and Distributions."

In connection with the EssTec and Veridicom merger transactions described in Item 1 above, we issued a total of 7,776,162 shares of our common stock.

Refer to Item 11 for information regarding our equity compensation plans.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Financial Statements, including the related notes thereto, and other financial information included herein. The information in this Report includes forward-looking statements. In addition, past operating results are not necessarily indicative of the results to be expected for future periods.

Overview

Veridicom International, Inc., a Delaware corporation (hereinafter sometimes referred to as the "Company," "we," and "us"), incorporated on September 9, 1987, under the name Perceptronics, Inc. From our inception through fiscal 2000, we were engaged in the design, development and manufacture of computer-based simulation systems for training and decision support. These systems included both hardware and software and are used to train personnel in the use of various military and commercial equipment. Much of our simulator business was in the foreign defense industry. The tightening of defense budgets worldwide, combined with the continuing consolidation and competition in the

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defense industry, negatively impacted the growth and profit opportunities for small companies such as ours. As a result, in July 2000, we refocused our business. In connection with the refocus, we sold the assets related to our computer based simulation system line of business to a developer and manufacturer of specialized defense simulation products. We then commenced development of commercial products in the area of Internet collaboration.

However, we lacked the funds necessary to exploit our developed products. As a result, in October 2002, we entered into a license agreement with our then principal stockholder, Global Alpha Corporation ("GAC") pursuant to which GAC was granted an exclusive license to our software and systems commonly referred to as the "IC3D Framework" (the "System"). The System encompassed substantially all of our software including software developed to support multi-user online collaborative interactivity in a broad variety of applications employing a variety of virtual media over a number of networks including the Internet and intra-nets. Under the license agreement, GAC agreed to pay us a license fee of 10% of the revenue generated from the sale or use of the System up to \$1.0 million, 9% up to \$2.0 million, 8% up to \$3.0 million and, thereafter, 7% of the revenue generated.

In connection with the license agreement, in October 2002 we terminated substantially all of our employees, and except for our license agreement, ceased all of our prior operating activities. Our principal activities became directed to reducing our liabilities and seeking possible acquisitions. Management's objective was to acquire an operating company that has experienced management and the potential for profitable growth in exchange for our securities.

On April 28, 2003, we entered into an Agreement and Plan of Merger with EssTec, Inc., a privately-held Nevada corporation ("EssTec") . In accordance with the merger, on May 8, 2003, we, through our wholly-owned subsidiary, Alpha Acquisition Corporation, a Nevada corporation, acquired EssTec in exchange for 4,276,162 shares of our common stock. The transaction contemplated by the agreement was intended to be a "tax-free" reorganization pursuant to the provisions of Section 351 and 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

On May 8, 2003, in connection with the EssTec merger, we changed our fiscal year end from March 31 to December 31.

On November 25, 2003, we entered into an Agreement and Plan of Merger

with Veridicom, Inc., a privately-held California corporation ("Veridicom"). In accordance with the merger, on November 25, 2003, we, through our wholly-owned subsidiary, A/V Acquisition Corporation, a Nevada corporation, acquired Veridicom in exchange for 3,500,000 shares of our common stock; 3,250,000 shares were issued to the holders of Veridicom stock and 250,000 shares were issued into escrow to cover indemnification obligations, if any, of Veridicom. The transaction contemplated by the agreement was intended to be a "tax-free" reorganization pursuant to the provisions of Section 351 and 368(a)(1)(A) of the Internal Revenue Code of 1986, as amended.

Since March 1, 2004, we have undertaken a comprehensive review of all pre-merger operations. This on-going review has included all facets of operations, including the supply chain, product development, previous sales and marketing agreements, internal controls and reporting systems. Based on this review, we have decided that a thorough reorganization of all of the companies

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is warranted, including a re-evaluation of the supply chain, method of manufacture, product strategy and other organizational procedures. Although distracting in the short-term, we believe that this review is in the long-term best interests of the Company and our stockholders. As part of the reorganization, we closed our Sunnyvale, California offices on April 15, 2004 in favor of a more cost effective and efficient development environment in the Pacific Northwest.

Critical Accounting Policies Used in Financial Statements

We prepare our financial statements in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates and judgments are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Veridicom International, Inc., (the Company, formerly known as Alpha Virtual, Inc. ("Alpha")) is a Delaware Corporation formerly headquartered in California that was formed on September 9, 1987. The name of the Company was changed to Veridicom International, Inc. in February 2004. The Company consolidated its corporate offices in Seattle, Washington, and Vancouver, British Columbia in April 2004.

Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred a net loss of \$2,882,690 and has a working capital deficit and a stockholder deficit, which raises substantial doubt about its ability to continue as a going concern. The Company is currently devoting its efforts to raising additional capital and investigating potential merger candidates. The Company's ability to continue as a going concern is dependent upon its ability to develop additional sources of capital, and ultimately, achieve profitable operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Change in Year End

On May 8, 2003, in connection with the Esstec merger, Alpha changed its fiscal year end from March 31 to December 31.

Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries Esstec, Inc., Essential Tec Pakistan (Private) Limited, and Veridicom, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

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Minority Interest

Minority interest reflects the ownership of minority shareholders in the equity of Pakistan, a consolidated subsidiary less than wholly owned.

Reclassifications

For comparative purposes, prior year's consolidated financial statements have been reclassified to conform to report classifications of the current year.

Goodwill

Goodwill was recorded at its purchase price and is not being amortized. Pursuant to SFAS 142 ("Goodwill and Other Intangible Assets") and SFAS 144 ("Accounting for the Impairment or Disposal of Long-Lived Assets"), the Company has evaluated its goodwill for impairment and determined that the fair value of its goodwill is \$936,520 and has recognized a \$1,809,648 impairment charge.

Valuation of the Company's Common Stock

Unless otherwise disclosed, all stock based transactions entered into by the Company have been valued at the market value of the Company's common stock on the date the transaction was entered into or have been valued using the Modified Black-Scholes European Model to estimate the fair market value.

Concentrations of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

Advertising Expenses

The Company expenses advertising costs as incurred. During the years ended December 31, 2003 and 2002, the Company did not have significant advertising costs.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, notes payables, accounts payable, and accrued expenses approximate fair value because of the short maturity of these items.

Recently Issued Accounting Pronouncements

In July 2001 the Financial Accounting Standards Board ("FASB") issued SFAS No. 142 Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company was required to adopt SFAS 142 effective January 1, 2002. The Company has determined that the fair value of its goodwill is \$936,520 and has recognized a \$1,809,648 impairment charge.

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In July 2001 the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 will be effective for the Company for the fiscal year beginning January 1, 2003 and early adoption is encouraged. SFAS No. 143 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset. The Company has adopted SFAS No. 143 and its adoption did not have a material impact on its financial statements.

In August 2001 the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 is effective for the Company on January 1, 2002 and addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and APB Opinion No. 30, reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 and expands the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The Company has adopted SFAS No. 144 and its adoption did not have a material impact on its financial statements.

In April 2002 the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections ("SFAS145"). This statement rescinds the requirement in SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, that material gains and losses on the extinguishment of debt be treated as extraordinary items. The statement also amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the accounting for sale-leaseback transactions and the accounting for certain

lease modifications that have economic effects that are similar to sale-leaseback transactions. Finally the standard makes a number of consequential and other technical corrections to other standards. The provisions of the statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. Provisions of the statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002 and the other provisions of the statement are effective for financial statements issued on or after May 15, 2002. The Company has adopted SFAS 145 and its adoption did not have a material effect on its financial statements.

In July 2002 the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities ("SFAS 146"). SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. SFAS 146 will require a Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 supersedes Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and requires liabilities associated with exit and disposal activities to be expensed

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as incurred and can be measured at fair value. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. The Company has adopted SFAS 146 and its adoption did not have a material effect on its financial statements.

In December 2002 the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic value based method of accounting prescribed by APB No. 25. In addition, this Statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under the provisions of SFAS No. 148, companies that choose to adopt the accounting provisions of SFAS No. 123 will be permitted to select from three transition methods: Prospective method, Modified Prospective method and Retroactive Restatement method. The transition and annual disclosure provisions of SFAS No. 148 are effective for the fiscal years ending after December 15, 2002. The Company has adopted SFAS No. 148 and its adoption did not have a material effect on the financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51 ("FIN 46"). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (Variable Interest Entities or "VIEs") and to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. The disclosure requirements of FIN 46 became effective for financial statements issued after January 31, 2003. The adoption of this interpretation did not have an impact on the Company's financial statements.

In April 2003, FASB issued SFAS No. 149, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 149") which is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments including certain instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company has adopted SFAS 149 and its adoption did not have a material effect on its financial statements.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company has adopted SFAS 150 and its adoption did not have a material effect on its financial statements.

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Inventory

Inventory consists primarily of various sensors, combos and parallel port units. Inventory is valued at lower of cost (first-in, first-out) or market.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of 3-7 years. Depreciation expense was \$18,105 and \$39,846 for the years ended December 31, 2003 and 2002, respectively. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. When assets are retired or otherwise disposed of, the property accounts are relieved of costs and accumulated depreciation and any resulting gain or loss is credited or charged to operations.

Patents

At the acquisition of Veridicom, the Company evaluated the unused patents and determined the costs to secure the patents outweighed their intended use and was unable to find a party interested in purchasing the patents. The patents were originally recorded at cost and were being amortized on a straight-line basis over 15 years. The Company has valued the patents at \$200,000.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all funds with original maturities of three months or less to be cash equivalents.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the periods in which the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense represents the tax payable for the current period and the change during the period in deferred tax assets and liabilities. The Company has a net operating loss carry forward of approximately \$3,000,000 expiring beginning in 2020.

Revenue Recognition

Sales of services are recorded when performed in accordance with contracts. Revenues from software sales are recorded in accordance with SOP 97-2 'Software

Revenue Recognition

Revenue Recognition', which requires that revenue recognized from software arrangements be allocated to the various elements of the arrangement based on the relative fair market values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation or training. Revenue from product services are recognized at the time services are provided.

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For fixed fee contracts, Esstec recognizes revenue based on the percentage completed, calculated as either the number of direct labor hours in the project to date divided by the estimated total direct labor hours, or based upon the completion of specific task benchmarks. It is Esstec's policy to record contract losses in their entirety in the period in which such losses can be estimated. Any revenues associated with pre-payments or pre-billings are deferred until revenue is earned. For non-fixed fee jobs, revenue is recognized as services are performed and adjusted to realization value, if necessary.

Pakistan recognizes revenue at the point/time the software is delivered/exported.

Veridicom recognizes revenues at the point of shipment of products.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Loss

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No.

130. "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive loss and its components in a financial statement. Comprehensive loss as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive loss, which are excluded from net loss, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive loss presented in these consolidated financial statements resulted from translations of foreign currency financial statements.

Foreign Currency Translation

Pakistan considers the Pakistan Rupee to be the functional currency of its operations. The reporting currency of the Company is the U.S. dollar; accordingly, all amounts included in the financial statements have been translated into U.S. dollars.

Exchange Rates	For the year Ending 2003	For the Year Ending 2002
Average	.017331	.01648
Period end	.017479	

Software Development Costs

The software development costs were expensed as research and development costs as incurred until the software reached technological feasibility in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86").

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Earnings Per Common Share

The Company computes earnings (loss) per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS No. 128). This statement simplifies the standards for computing earnings per share (EPS) previously found in Accounting Principles Board Opinion No. 15, Earnings Per Share, and makes them more comparable to international EPS standards. SFAS No. 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the Statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

Results of Operations--Years Ended December 31, 2003 and 2002

The following table sets forth certain statement of operations data for the years ended December 31, 2003 and 2002:

	For the years ended December 31,	
	2003	2002
Revenues		
Net revenue	\$ 281,997	\$ 394,011
Cost of goods sold	116,007	167,209
Gross profit	165,990	226,802
Expenses		
General and administrative expenses	1,727,517	1,530,856
Research and development	-	122,188
Impairment of goodwill	1,809,648	-
Depreciation	18,105	39,846
Loss from operations	(3,389,280)	(1,466,088)
Other income (expense)		
Other income	6,692	62
Loss of equipment	-	(34,348)
Loss on sale of equipment	-	(11,238)
Gain on cancellation/forgiveness of debt	556,104	-
Interest expense	(60,835)	(278,905)
Total other income (expense)	501,961	(324,429)
(Loss) before minority interest	(2,887,319)	(1,790,517)
Minority Interest	4,629	-
Net (Loss)	(2,882,690)	(1,790,517)

Other comprehensive loss

Foreign currency translation adjustment	(741)	(717)
Comprehensive loss	\$ (2,883,431)	\$ (1,791,234)

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Earnings (loss) per share:		
Basic and fully diluted (loss) per common share	\$ (0.51)	\$ (0.49)
Weighted average common shares outstanding basic and fully diluted	5,662,025	3,661,847

General

Our business activities during the year ended December 31, 2003 were largely focused on mergers with, and acquisitions of, companies with similar, complementary or related technology and compatible management. Following the merger with Esstec Inc., and the acquisition of Veridicom Inc., we were engaged

primarily in aligning the operations of the subsidiaries and curtailing and consolidating operations as necessary, with a view to reducing costs and liabilities, and seeking additional capital.

Net Sales

Net sales for fiscal 2003 of \$281,997 decreased by \$112,014 compared to fiscal 2002 because of reduced revenues from consulting services.

Cost of Sales

Cost of sales represent the cost of providing consulting services. These amounted to \$116,007 in fiscal 2003 and decreased by \$51,202 compared to fiscal 2002, because of the related decrease in net sales.

Gross Profit

The gross profit margin in fiscal 2003 was 58.9% of net sales compared to 57.6% of net sales in fiscal 2002, a slight improvement of 1.3%

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General and Administrative Expenses

General and administrative expenses, which include non-cash compensation expense, amounted to \$1,727,517 in fiscal 2003 compared to \$1,530,856 in fiscal 2002. However, the decrease in non-cash and deferred compensation expense of \$ 581,000 in 2003 (\$477,000 in 2003 compared to \$1,028,000 in 2002) was off-set by increases in other cash expenditures in 2003 comprising mainly of \$230,000 for legal fees, \$265,000 for consulting fees, and \$95,000 in travel costs.

Interest

Interest expense in fiscal 2003 amounting to \$60,835 was mostly for accrued interest on notes payable, compared to interest expense of \$278,905 in fiscal 2002. The higher interest expense in fiscal 2002 arose because during 2002, the company issued 28,500 and 25,000 shares of its common stock to a creditor for the extension of the due dates of the note payable and recorded

interest expense totaling \$267,500 (\$142,500 and \$125,000 respectively).

Gain on Cancellation/ Forgiveness of Debt

During fiscal 2003, the Company realized gains on forgiveness of debts amounting to \$556,104. These relate to the sale of 13CD/OneView product to Global Alpha Corporation (which was previously licensed to GAC) in exchange for the cancellation of \$435,000 note and accrued interest of \$45,312 owed by the Company. In addition, the Company recognized a gain on the settlement of certain accounts payable amounting to \$75,792.

Liquidity and Capital Resources

We currently have sufficient funds on hand to fund our operations for the next quarter. We will need to raise financing in the future to fund our operations. If successful in raising additional financing, we may not be able to do so on terms that are not excessively dilutive to our existing stockholders or less costly than existing sources of financing. Failure to secure additional financing in a timely manner and on favorable terms if and when needed in the future could have a material adverse effect on our financial performance, balance sheet and stock price and require us to implement cost reduction initiatives and curtail operations.

Off-Balance Sheet Arrangements

None.

Dividends and Distributions

We have not paid any cash dividends to date. We intend to retain our future earnings, if any, and we do not anticipate paying cash dividends on either class of our stock in the foreseeable future.

Risk Factors

Risk Related to our Financial Results

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Our stock price is volatile and could decline in the future.

The price of our common stock has been volatile in the past and will likely continue to fluctuate in the future. The stock market in general and the market for shares of technology in particular has experienced extreme stock price fluctuations. In some cases, these fluctuations have been unrelated to the operating performance of the affected companies. Many companies in the technology and related industries, including us, have experienced dramatic volatility in the market prices of their common stock.

We have an accumulated deficit, are not currently profitable and expect to incur significant expenses in the future as we implement our new business model, which may reduce our profitability.

We have incurred a cumulative net loss since inception and are currently experiencing negative cash flow. We expect to continue to experience negative cash flow and operating losses for the foreseeable future as we continue to make significant expenditures for acquisitions, sales and marketing, international expansion, infrastructure development and general and administrative functions, in light of our new business model. As a result, we will need to generate significant revenues to achieve profitability. If our revenues grow more slowly than we anticipate, or if our operating expenses exceed expectations, we may experience reduced profitability.

Our auditors have indicated uncertainty concerning our ability to continue operations as a going concern.

Our auditors have indicated uncertainty concerning our ability to continue as a going concern as of the most recent audited financial statements. We cannot assure you that our ability to obtain additional customers or financing sources will be impaired as a result of this qualification. Additionally, we cannot assure you that our proposed projects and services, if fully developed, can be successfully marketed or that we will ever achieve significant revenues or profitable margins and therefore remain a going concern.

We will be required to raise additional capital to fund our operations.

To fund our operations, we will need to raise additional capital through public or private equity offerings of securities or debt financings. If we cannot raise needed funds on acceptable terms, we will not be able to develop or enhance our products, take advantage of future opportunities or respond to competitive pressures or unanticipated requirements. To the extent we raise

additional capital by issuing equity securities, our stockholders may experience substantial dilution. Also, any new equity securities may have greater rights, preferences or privileges than our existing common stock. A material shortage of capital will require us to take drastic steps such as reducing our level of operations, disposing of selected assets or seeking an acquisition partner. If cash is insufficient, we will not be able to continue operations.

We will be required to amend our previous periodic reports filed with the Securities and Exchange Commission.

We have failed to timely respond to comments generated by the Securities and Exchange Commission on several of our previously filed periodic reports. In addition, our previous auditors resigned largely as a result of

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periodic reports being filed prior to their review. Although we are currently working with our new auditors to address these concerns, we will be required to amend certain previously filed periodic reports and there can be no assurance that we will not be required to restate previously filed financial statements, or be subject to regulatory action by the Securities and Exchange Commission. Any of these actions would have a material adverse effect on us and the price of our common stock.

Risks Related To Our Business

We face intense competition from other biometric security solution providers as well as identification and security systems providers.

A significant number of established and startup companies have developed or are developing hardware for fingerprint biometric security applications that currently compete or will compete directly with those products designed, developed and sold by us. Other companies have developed or are developing and marketing biometric security applications for the recognition of fingerprints that currently compete or will compete with those products designed, developed and sold by us. Some of these companies have developed or are developing and marketing semiconductor or optically based direct contact fingerprint image capture devices. Other companies have developed or are developing and marketing other methods of biometric identification such as retinal blood vessel or iris pattern, facial structure, or voice recognition.

If one or more of these technologies or approaches were widely adopted, it would significantly reduce the potential market for our products. Our products also compete with non-biometric technologies such as certificate authorities and traditional keys, cards, surveillance systems and passwords. Many competitors offering products that are competitive with our products and services have significantly more cash and resources than us. The biometric security market is a rapidly evolving and intensely competitive market, and we believe that additional competitors may enter the market and become significant long-term competitors.

We expect competition to increase and intensify in the near term in the biometrics markets. Companies competing with us may introduce products that are competitively priced, have increased performance or functionality or incorporate technological advances not yet developed or implemented by us.

Some present and potential competitors have financial, marketing, research, and manufacturing resources substantially greater than we have.

In order to compete effectively in this environment, we must continually develop and market new and enhanced products at competitive prices and must have the resources available to invest in significant research and development activities. The failure to do so could have a material adverse effect on its business operations, financial results and stock price.

We will need to raise additional equity or debt financing in the future.

We will need to raise financing in the future to fund our operations. If successful in raising additional financing, we may not be able to do so on terms that are not excessively dilutive to our existing stockholders or less

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costly than existing sources of financing. Failure to secure additional financing in a timely manner and on favorable terms if and when needed in the future could have a material adverse effect on our financial performance, balance sheet and stock price and require us to implement cost reduction initiatives and curtail operations.

Our business will not grow unless the market for our security solutions expands

both domestically and internationally.

A large portion of our revenues are derived from the sale of security products and services. We cannot accurately predict the future growth rate, if any, or the ultimate size of the biometric technology market. The expansion of the market for our products and services depends on a number of factors, including:

- o the cost, performance and reliability of its products and services and the products and services of our competitors;
- o customers' perception of the benefit of biometric security solutions;
- o public perceptions of the intrusiveness of these solutions and the manner in which firms are using the biometric information collected;
- o public perceptions regarding the confidentiality of private information;
- o customers' satisfaction with our products and services; and
- o marketing efforts and publicity regarding these products and services.

Certain groups have publicly objected to the use of biometric products for some applications on civil liberties grounds and legislation has been proposed to regulate the use of biometric security products. From time to time, fingerprint recognition and other biometrics technologies have been the focus of organizations and individuals seeking to curtail or eliminate the use of these technologies on the grounds that these technologies may be used to diminish personal privacy rights. In the event that such initiatives result in restrictive legislation, the market for fingerprint recognition products may be adversely affected. Even if biometric markets develop as we hope, our products and services may not gain wide market acceptance. Even if biometric security solutions gain wide market acceptance, our products and services may not adequately address the market requirements.

The biometrics industry is characterized by rapid technological change and evolving industry standards, which could render our existing products obsolete.

Our future success will depend upon our ability to develop and introduce a variety of new products and services and enhancements to these new products and services in order to address the changing and sophisticated needs of the marketplace. Frequently, technical development programs in the biometrics industry require assessments to be made of the future directions of technology and technology market generally, which are inherently difficult to predict.

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Delays in introducing new products, services and enhancements, the failure to choose correctly among technical alternatives or the failure to offer innovative products and services at competitive prices may cause customers to forego purchases of our products and services and purchase those of our competitors.

The development of new or enhanced products and services is a complex and uncertain process that requires the accurate anticipation of technological and market trends. We may experience development, marketing and other technological difficulties that may delay or limit our ability to respond to technological changes, evolving industry standards, competitive developments or customer requirements. You should also be aware that:

Our technology may become obsolete upon the introduction of alternative technologies;

- o We may incur substantial costs if we need to modify our products and services to respond to these alternative technologies;
- o We may not have sufficient resources to develop or acquire new technologies or to introduce new products or services capable of competing with future technologies;
- o We may be unable to acquire the rights to use the intellectual property necessary to implement new technology; and
- o When introducing new or enhanced products or services, we may be unable to effectively manage the transition from older products and services.

Continued participation by us in the market for biometric products that are linked to forensic quality databases under the jurisdiction of governmental agencies may require the investment of resources in upgrading our products and

technology in order for us to compete and to meet regulatory and statutory standards. We may not have adequate resources available to us or may not adequately keep pace with appropriate requirements in order to effectively compete in the marketplace.

Defects in our products and services could diminish demand for our products and services, which may harm our business.

Because our products and services are complex, they may contain errors or defects that are not found until after they are used by our customers. Errors or defects that subsequently arise could seriously harm our reputation and its ability to generate sales to new or existing customers.

Our products and services are used in systems with other vendors' products. These products and services can be adequately tested only when they are successfully integrated with these systems. Errors may be found in new products or releases after shipment and our products and services may not operate as expected. Errors or defects in our products and services could result in:

- o loss of revenues and increased service and warranty costs;
- o delay in market acceptance;

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- o loss of salaries; and
- o injury to our reputation.

We may be subject to loss in market share and market acceptance as a result of manufacturing errors, delays or shortages.

Performance failure in our products or certain of our services may cause loss of market share, delay in or loss of market acceptance, additional warranty expense or product recall, or other contractual liabilities. The complexity of certain of the fingerprint recognition systems make the manufacturing and assembly process of such products, especially in volume, complex. This may in turn lead to delays or shortages in the availability of certain products, or, in some cases, the unavailability of certain products. The negative effects of any delay or failure could be exacerbated if the delay or failure occurs in products or services that provide personal security, secure sensitive computer data, authorize significant financial transactions or perform other functions where a security breach could have significant consequences.

If a product or service launch is delayed or is the subject of an availability shortage because of problems with our ability to manufacture or assemble the product or service successfully on a timely basis, or if a product or service otherwise fails to meet performance criteria, we may lose revenue opportunities entirely and/or experience delays in revenue recognition associated with a product or service in addition to incurring higher operating expenses during the period required to correct the defects. We may be subject to repair, replacement, reimbursement and liability claims for products that fail to work or to meet applicable performance criteria.

There is a risk that for unforeseen reasons we may be required to repair or replace a substantial number of products in use or to reimburse customers for products that fail to work or meet strict performance criteria. We attempt to limit remedies for product or service failure to the repair or replacement of malfunctioning or noncompliant products or services, and also attempts to exclude or minimize exposure to product and related liabilities by including in its standard agreements warranty disclaimers and disclaimers for consequential and related damages as well as limitations on its aggregate liability. From time to time, in certain complex sale or licensing transactions, each entity may negotiate liability provisions that vary from such standard forms.

Our existing and proposed international business exposes us to additional risks that may result in future additional costs or limit the market for product sales.

Products and services provided to our international customers account for a significant part of our revenues. In addition, key component of our business plan is to expand our reach in our foreign markets. Conducting business outside of the United States subjects us to additional risks, including:

- o changes in regulatory requirements;
- o reduced protection of intellectual property rights;
- o evolving privacy laws;

- o tariffs and other trade barriers;
- o difficulties in staffing and managing foreign operations;
- o problems in collecting accounts receivable; and
- o difficulties in authenticating customer information.

We will face risks inherent to new ventures in each new market that we enter, including a lack of acceptance of our business model. We may also incur substantial costs related to entering into new markets, which may not be recoverable we are unsuccessful in these markets. Failure to recover these costs and expenses may materially adversely impact our cash flow and ability to meet our regular operating expenses, which may, in turn harm our ability to serve our customers and our competitive position to obtain new customers.

In addition, a portion of our technology base is in Pakistan. We could be adversely affected by any major hostilities involving Pakistan, which result in the interruption or curtailment of trade between Pakistan and its trading partners. For example, if the United States or any of its trading partners reinstates the recently lifted trade sanctions, it may adversely impact our ability to continue our Pakistani operations.

If we fail to attract and retain employees, our growth could be limited and our costs could increase, which may adversely affect our results of operations and financial position.

Our future success depends in large part upon our ability to attract, train and retain highly skilled executive-level management and creative and technical personnel. The competition in the technology industry for such personnel is intense, and we cannot be sure that we will be successful in attracting, training and retaining such personnel. Some of our employees and executive officers have joined our company recently, and all employees are subject to "at will" employment. High turnover resulting in additional training expense would decrease its profitability. We cannot guarantee that we will be able to replace any of our management personnel in the event their services become unavailable.

Our failure to maintain the proprietary nature of our technology, intellectual property and manufacturing processes could have a material adverse effect on our business, operating results and financial condition and on our ability to compete effectively.

We principally rely upon patent, trademark, copyright, trade secret and contract law to establish and protect our proprietary rights. There is a risk that claims allowed on any patents or trademarks that we hold may not be broad enough to protect our technology. In addition, our patents or trademarks may be challenged, invalidated or circumvented and management cannot be certain that the rights granted thereunder will provide us with competitive advantages. Moreover, any current or future issued or licensed patents, or trademarks, or currently existing or future developed trade secrets or know-how may not afford sufficient protection against competitors with similar technologies or processes, and the possibility exists that certain of our already issued patents or trademarks may infringe upon third party patents or trademarks or be designed around by others.

In addition, there is a risk that others may independently develop proprietary technologies and processes, which are the same as, substantially equivalent or superior to those possessed by us or become available in the market at a lower price.

There is a risk that we have infringed or in the future will infringe patents or trademarks owned by owners, that we will need to acquire licenses under patents or trademarks belonging to others for technology potentially useful or necessary to us and that licenses will not be available on acceptable terms, if at all.

We may have to litigate to enforce our patents or trademarks or to determine the scope and validity of other parties' proprietary rights. Litigation could be very costly and divert management's attention. An adverse outcome in any litigation may have a severe negative effect on our financial results and stock price. To determine the priority of inventions, we may have to participate in interference proceedings declared by the United States Patent and Trademark Office or oppositions in foreign patent and trademark offices, which could result in substantial cost to us and limitations on the scope or validity of our patents or trademarks.

We also rely on trade secrets and proprietary know-how, which we seek to protect by confidentiality agreements with our employees, consultants,

service providers and third parties. There is a risk that these agreements may be breached, and that the remedies available to us may not be adequate. In addition, our trade secrets and proprietary know-how may otherwise become known to or be independently discovered by others.

Failure to increase our brand awareness could limit our ability to compete effectively.

If the marketplace does not associate us with high-quality products and services, we may be unable to keep our existing customers, attract new customers or successfully introduce new products and services. Competitive and other pressures may require us to increase our marketing expenses to promote our brand name, and the benefits associated with brand creation may not outweigh the risks and costs associated with establishing our brand name. Our failure to develop a strong brand name or the incurrence of excessive costs associated with establishing our brand name may harm our business.

We have a lengthy sales and implementation cycle, which increases the cost of completing sales and renders completion of sales less predictable.

If we are unable to license our services to new customers on a timely basis or if our existing and proposed customers and their end-users suffer delays in the implementation and adoption of its services, our revenue may be limited and business and prospects may be harmed. Our customers must evaluate our technology and integrate our products and services into the products and services they provide. In addition, our customers may need to adopt a comprehensive sales, marketing and training program in order to effectively implement some of its products. For these and other reasons, the cycle associated with establishing licenses and implementing our products can be lengthy.

Our success depends on our ability to grow and develop our direct and indirect distribution channels and the inability to do so could adversely affect future operating results.

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Our failure to grow and develop our direct sales channel or to increase the number of our indirect distribution channels could have a material adverse effect on its business, operating results and financial condition. We must continue to develop relationships with existing channel partners or they may choose to devote greater resources to supporting the products of competitors.

We may be adversely impacted by the events of and actions in response to September 11, 2001. A recurrence of terrorist attacks may have a material adverse impact on our business plan, operations and financial condition.

We may be adversely affected by the events of September 11, 2001, and the war in Iraq. At this time, the long term effects of these events, or other similar or related events that may occur in the future, on the biometric industry or on worldwide economic conditions. We cannot assure you that our business plan, will not be adversely impacted by future terrorist attacks or actions taken in response to those attacks.

Risks Related to our Capital Structure

There is no assurance of an established public trading market.

Although our common stock trades on the Over-the-Counter Bulletin Board (the "OTCBB"), a regular trading market for the securities may not be sustained in the future. The NASD has enacted recent changes that limit quotations on the OTCBB to securities of issuers that are current in their reports filed with the Securities and Exchange Commission. The effect on the OTCBB of these rule changes and other proposed changes cannot be determined at this time. The OTCBB is an inter-dealer, Over-The-Counter market that provides significantly less liquidity than the NASD's automated quotation system (the "NASDAQ Stock Market"). Quotes for stocks included on the OTCBB are not listed in the financial sections of newspapers as are those for The Nasdaq Stock Market. Therefore, prices for securities traded solely on the OTCBB may be difficult to obtain and holders of common stock may be unable to resell their securities at or near their original offering price or at any price. Market prices for our Common Stock will be influenced by a number of factors, including:

- o the issuance of new equity securities;
- o changes in interest rates;
- o competitive developments, including announcements by competitors of new products or services or significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- o variations in quarterly operating results;

- o change in financial estimates by securities analysts;
- o the depth and liquidity of the market for our common stock;
- o investor perceptions of our company and the technologies industries generally; and
- o general economic and other national conditions.

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Our common stock could be considered a "penny stock."

Our common stock could be considered to be a "penny stock" if it meets one or more of the definitions in Rules 15g-2 through 15g-6 promulgated under Section 15(g) of the Securities Exchange Act of 1934, as amended. These include but are not limited to the following: (i) the stock trades at a price less than \$5.00 per share; (ii) it is NOT traded on a "recognized" national exchange; (iii) it is NOT quoted on The Nasdaq Stock Market, or even if so, has a price less than \$5.00 per share; or (iv) is issued by a company with net tangible assets less than \$2.0 million, if in business more than a continuous three years, or with average revenues of less than \$6.0 million for the past three years. The principal result or effect of being designated a "penny stock" is that securities broker-dealers cannot recommend the stock but must trade in it on an unsolicited basis.

Broker-dealer requirements may affect trading and liquidity.

Section 15(g) of the Securities Exchange Act of 1934, as amended, and Rule 15g-2 promulgated thereunder by the SEC require broker-dealers dealing in penny stocks to provide potential investors with a document disclosing the risks of penny stocks and to obtain a manually signed and dated written receipt of the document before effecting any transaction in a penny stock for the investor's account.

Potential investors in our common stock are urged to obtain and read such disclosure carefully before purchasing any shares that are deemed to be "penny stock." Moreover, Rule 15g-9 requires broker-dealers in penny stocks to approve the account of any investor for transactions in such stocks before selling any penny stock to that investor. This procedure requires the broker-dealer to (i) obtain from the investor information concerning his or her financial situation, investment experience and investment objectives; (ii) reasonably determine, based on that information, that transactions in penny stocks are suitable for the investor and that the investor has sufficient knowledge and experience as to be reasonably capable of evaluating the risks of penny stock transactions; (iii) provide the investor with a written statement setting forth the basis on which the broker-dealer made the determination in (ii) above; and (iv) receive a signed and dated copy of such statement from the investor, confirming that it accurately reflects the investor's financial situation, investment experience and investment objectives. Compliance with these requirements may make it more difficult for holders of our common stock to resell their shares to third parties or to otherwise dispose of them in the market or otherwise.

ITEM 7. FINANCIAL STATEMENTS

The information required by this Item 7 is incorporated by reference to our audited financial statements and Independent Auditors' Report beginning at page F-1 of this Form 10-KSB.

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

(a) On December 12, 2003, Beckman Kirkland & Whitney ("Beckman") informed us that it was resigning as our independent accountant due to recent filings of quarterly reports for the periods ended 6/30/03 and 9/30/03 made by us with the Securities and Exchange Commission without prior review by Beckman.

We conducted a series of discussions with Beckman urging Beckman to reconsider its resignation. After several discussions, Beckman did not indicate a consent to withdraw its resignation. For this reason, on February 11, 2004, we retained AJ. Robbins, PC as our new independent accountants.

The reports of Beckman on our financial statements for the past two fiscal years contained a qualification that there was substantial doubt about our ability to continue as a going concern. Other than the foregoing, the reports contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope or accounting principle.

In connection with its audits for each of the two most recent fiscal years through February 11, 2004, the date we filed a Form 8-K to report the change, there were no disagreements with Beckman on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure, which disagreements, if not resolved to the satisfaction of Beckman, would have caused Beckman to make reference thereto in their report on the financial statements for such years.

Beckman has furnished us with a letter addressed to the Securities and Exchange Commission stating that it agreed with the statements made in the Form 8-K and is filed as an exhibit thereto.

(b) On February 11, 2004, our Board of Directors retained AJ. Robbins, PC as our new independent accountants.

ITEM 8A. CONTROLS AND PROCEDURES

As of December 31, 2003, an evaluation was carried out under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on their evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that as of December 31, 2003, our disclosure controls and procedures needed improvement and were not adequately effective. As disclosed in Item 8 above, quarterly reports for the periods ended 6/30/03 and 9/30/03 were filed by us with the Securities and Exchange Commission without prior review by our independent accountant.

Upon completion of our merger with Cavio in February 2004, we retained a new management team, including a new Chief Executive Officer and Chief Financial Officer. Our Chief Executive Officer and Chief Financial Officer are taking an active role in identifying the deficiencies and implementing corrective measures, which includes the establishment of new internal policies related to financial reporting. We believe that the new internal policies will

address the conditions identified by our new Chief Executive Officer and Chief Financial Officer as material weaknesses in our disclosure controls and procedures. We will continue to monitor the effectiveness of these new internal policies.

Our Chief Executive Officer and Chief Financial Officer believe that there are no material inaccuracies, or omissions of material facts necessary to make the statements not misleading in light of the circumstances under which they were made, in this Form 10-KSB.

PART III

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS

Information Concerning Our Directors and Executive Officers

The following table sets forth, as of May 10, 2004, the names of, and certain information concerning, our directors and executive officers:

Name and Title Other than Director	Age	Year First Appointed Director	Principal Occupation During the Past Five Years
Paul Mann, President and CEO	45	2004	Mr. Mann was the founder of Cavio Corporation and served as its CEO since its inception in 1998.
Saif Mansour	29	2002	Mr. Mansour served as our president until March 2003 and also served as our VP, Strategic Planning. Mr. Mansour previously worked in the venture capital industry.
Bill Cheung	32	2002	Mr. Cheung has been a partner of Manhattan Capital Partners, Inc., an

investment advisory company, since 2002. Prior to that, Mr. Cheung spent ten years in the industrial manufacturing industry as a partner of National Plastics (China) and Sino Energy (Hong Kong).

Gyung Min Kim	45	2003	Mr. Kim has been CEO of Real ID Technology LTD in Korea since its establishment in 1998. Real ID provides biometric authentication products in Korea. Prior to that, he was CEO of Sam-Jin Co, a production center for Nike in Korea, as well as CEO of Picoco Co, a sports marketing company and Official World Cup licensee.
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Bashir Jaffer, CFO	58	N/A	From 1998 to 2003, Mr. Jaffer was the owner and president of his own travel management company. From 1983-1998, Mr. Jaffer was a partner at a firm of chartered accountants.
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Terry Laferte, SVP Technical Operations	44	N/A	From 2000-2004, Mr. Laferte was responsible for leading the development of technology applications for Cavio Corporation. From 1993-2000, Mr. Laferte managed all software development for the Canadian Securities Registration Systems.
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None of our directors were selected pursuant to any arrangement or understanding other than with our directors and executive officers acting within their capacities as such. There are no family relationships between any of our directors.

The Board of Directors and Committees

Our Board does not maintain a separate audit, nominating or compensation committee. Functions customarily performed by such committees are performed by our Board as a whole. We are not required to maintain such committees under the applicable rules of the Over-the-Counter Bulletin Board. None of our independent directors qualify as an "audit committee financial expert."

Code of Ethics

We adopted a Code of Business Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer or controller or persons performing similar functions, a copy of which is filed as an exhibit to this Form 10-KSB.

Section 16(a) Beneficial Ownership Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires our directors and certain executive officers and persons who own more than ten percent (10%) of a registered class of our equity securities (collectively, the "Reporting Persons"), to file reports of ownership and changes in ownership with the Securities and Exchange Commission. The Reporting Persons are required by Securities and Exchange Commission regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, based solely on our review of the copies of such forms received by us, or written representations from the Reporting Persons, all of our insiders complied with all filing requirements during 2003.

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ITEM 10. EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information concerning the compensation during each of the last three fiscal years by our former principal executive officer (the "Named Executive Officer"). No executive officer received compensation in excess of \$100,000 for the most recent fiscal year.

<S>	<C>	<C>	<C>	<C>	<C>	<C>		
						Long Term Compensation		
Annual Compensation						Awards	Payouts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Other Annual Compensation (\$)	Restricted Stock Award(s) (\$)	Securities Underlying Options/SARs (#)	LTIP Payouts (\$)	All Other Compensation (\$)
Charles Lesser, Former President (1)	2003	69,631	--	14,369 (2)	--	60,000 (3)	--	--
	2002	--	--	--	--	--	--	--
	2001	--	--	--	--	--	--	--

</TABLE>

- (1) Retained in April 2003.
- (2) Represents premiums paid on an insurance policy.
- (3) Options were originally granted on April 1, 2003 with a vesting period of 2,500 shares per month over a period of 24 months. Mr. Lesser resigned in February 2004 and all options were cancelled 3 months after the termination date.

Option/SAR Information

The following table sets forth option granted by us to the Named Executive Officer in the most recent fiscal year.

Option/SAR Grants in Last Fiscal Year
Individual Grants

	No. of Securities Underlying Options/SARs Granted (#)	Percent of Total Options/SARs Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date
Charles Lesser, Former President	60,000	54.5% (1)	\$1.33	Expired (2)

- (1) 110,000 options were granted in fiscal 2003.

- (2) Options were originally granted on April 1, 2003 with a vesting period of 2,500 shares per month over a period of 24 months. Mr. Lesser resigned in February 2004 and all options were cancelled 3 months after the termination date.

The following table sets forth information regarding options held by the Named Executive Officer.

Option/SAR Exercises and Year End Value Table
Aggregated Option/SAR Exercises in Last Fiscal Year and Year End
Option/SAR Value

Shares Acquired on Exercise (#)	Value Realized (\$)	No. of Securities Underlying Unexercised Options/SARs at Fiscal Year End (#)	Value of Unexercised In-the-Money Options/SARs at Fiscal Year End (\$)
		Exercisable/Unexercisable	Exercisable/Unexercisable
Charles Lesser, Former President	0	0	60,000 (1)
			280,200 (1), (2)

- (1) Options were originally granted on April 1, 2003 with a vesting period of 2,500 shares per month over a period of 24

months. Mr. Lesser resigned in February 2004 and all options were cancelled 3 months after the termination date.

- (2) Based on a closing price of \$6.00 per share on December 31, 2003, as reported by the Over-the-Counter Bulletin Board, and an exercise price of \$1.33 per share.

Employment Contracts

We entered into an employment agreement with our current President and Chief Executive Officer, Paul Mann. The term of the agreement is one year and was effective as of the closing of the Cavio merger. Under the terms of the agreement, Mr. Mann receives a base salary of \$175,000 and is eligible for an additional bonus based on our revenue performance. Mr. Mann is also entitled to a ten year stock option for 150,000 shares of our common stock at an exercise price of \$3.50 per share.

We have not entered into employment agreements with our other executive officers.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Equity Compensation Plan Information

The following table summarizes our equity compensation plan information as of December 31, 2003. Information is included for both equity compensation plans approved by our stockholders and equity compensation plans not approved by our stockholders.

We currently maintain the 1999 Stock Option Plan, which provides for the issuance of common stock to officers and other employees, directors and consultants. The following table sets forth information regarding outstanding options and shares reserved for future issuance under the foregoing plans as of December 31, 2003.

We do not plan to issue any additional options under our existing plan. We plan to adopt a new 2004 Stock Option Plan at our next annual meeting of stockholders.

Plan Category(1)	Number of Shares to Be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in Column (a)) (c)
Equity compensation plans approved by stockholders.....	770,714	\$1.96	0
Equity compensation plans not approved by stockholders.	--	--	--
Total.....	770,714	\$1.96	0

Shareholdings Of Certain Beneficial Owners, Directors And Executive Officers

We know of no person who owns, beneficially or of record, either individually or together with associates, five percent (5%) or more of the outstanding shares of our common stock, except as set forth in the table below. The following table sets forth, as of May 10, 2004, the number and percentage of shares of common stock beneficially owned, directly or indirectly, by each of our directors, the Named Executive Officer, principal stockholders and by our current directors as a group. The shares "beneficially owned" are determined under applicable Securities and Exchange Commission rules, and do not necessarily indicate ownership for any other purpose. In general, beneficial ownership includes shares over which the director, principal stockholder or executive officer has sole or shared voting or investment power and shares which such person has the right to acquire within 60 days of May 10, 2004. Each person in the table, except as noted has sole voting and investment powers over the shares beneficially owned.

Unless indicated otherwise, the address for each person named is c/o Veridicom International, Inc., 3800-999 3rd Avenue, Seattle, Washington 98104-4023.

Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Current Directors(1):		
Paul Mann, Director, President, Chief Executive Officer	2,957,017 (2)	19.6%
Gyung Min Kim, Director 4F SeRa B/D 50-1 Nonhyeon-dong Gangnam-gu, Seoul Republic of Korea 135-010	1,338,404 (3)	8.9%
Bill Cheung, Director and Secretary	435,714 (4)	2.8%
Saif Mansour, Director	100,314 (5)	*
(All Current Directors as a group, 4 in all)	4,831,449 (6)	31.0%
Former President:		
Charles Lesser, Former President	45,000 (7)	*
5% Stockholders:		
Ik Ju Kwun 102-805 Seocho-Samsung-Raemian APT Seocho-gu, Seocho-dong, Seoul Republic of Korea 137-070	1,498,682 (3,) (8)	10.5%
Gerald Calame Mill Mall, P.O. Box 964 Road Town Tortolla, British Virgin Islands	1,172,257 (9)	8.2%

* Less than 1%

- (1) Holdings of current executive officers appointed after fiscal 2003 are not reported on this table pursuant to applicable federal law. For further information regarding our executive officers, refer to Form 3 filings made with the Securities and Exchange Commission. Such filings may be accessed free of charge at www.sec.gov.
- (2) Includes options to purchase 43,750 shares of common stock within 60 days of May 10, 2004.
- (3) Pursuant to the terms of an Agreement and Plan of Merger dated as of November 25, 2003, an additional 250,000 shares of common stock are currently being held in escrow by Comerica Bank, as escrow agent. Upon release of the shares from escrow, Veridicom, Inc. stockholders will be entitled to a pro-rata distribution.
- (4) Includes (i) options to purchase 285,714 shares exercisable at \$0.70 per share, owned by Manhattan Capital Partners, LLC of which Mr. Cheung is a partner and (ii) options to purchase 150,000 shares exercisable at \$3.50 per share from October 15, 2001 through October 14, 2011.
- (5) Includes options to purchase 50,000 shares exercisable within 60 days of May 10, 2004.
- (6) Includes options to purchase 529,464 shares exercisable within 60 days of May 10, 2004.

- (7) Includes options to purchase 25,000 shares. Mr. Lesser notified us in 2004 that he plans to exercise this and issuance of the shares is pending.
- (8) Includes 979,376 shares held in the name of Biocom Co., Ltd. Mr. Kwun is the president of Biocom Co., Ltd.
- (9) All shares are held indirectly by Mr. Calame through Ucino Finance Ltd.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have entered into indemnification agreements with certain of our directors and executive officers pursuant to which we have agreed to indemnify any officer or director against all costs associated with the defense of any action brought against him or her in his/her capacity as an officer or director.

Paul Mann was a stockholder of Cavio prior to the merger transaction referenced in Item 1. He acquired approximately 20.4% of our outstanding common stock as of February 20, 2004.

ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

Exhibit
Number

-
- 2.1 Agreement and Plan of Merger dated April 23, 2003 by and among the Registrant (formerly Alpha Virtual, Inc.), Alpha Acquisition Corporation and EssTec, Inc. (incorporated by reference to Exhibit 10.25 to the Registrant's current report on Form 8-K filed with the SEC on May 5, 2003).
 - 2.2 Agreement and Plan of Merger dated November 25, 2003 by and among the Registrant (formerly Alpha Virtual, Inc.), A/V Acquisition Corporation and Veridicom, Inc. (incorporated by reference to Exhibit No. 2.1 to the Registrant's current report on Form 8-K filed with the SEC on December 10, 2003).
 - 2.3 Agreement and Plan of Merger dated January 16, 2004 between the Registrant (formerly Alpha Virtual, Inc.), A/VII Acquisition Corporation and Veridicom, Inc. and Cavio Corporation (incorporated by reference to Exhibit 2.1 to the Registrant's current report on Form 8-K filed with the SEC on February 23, 2004).
 - 3.1 Amended and Restated Certificate of Incorporation (incorporated by reference to Exhibit 3.1 to the Registrant's Definitive Information Statement on Schedule 14C filed with the SEC on February 3, 2004).
 - 3.2 Amended and Restated By-Laws (incorporated by reference to Exhibit 3.2 to the Registrant's Information Statement on Schedule 14C filed with the SEC on February 3, 2004).
 - 10.1 1999 Stock Option Plan (incorporated by reference to Exhibit 10.1 to the Registrant's quarterly report on Form 10-QSB for the period ended September 30, 1999)

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- 10.2 Employment agreement dated August 15, 2003 between the Registrant and Paul Mann.
- 10.3 Commercial Lease dated February 20, 2004 by and between Gastown Investment 21 Ltd. and the Registrant (formerly Alpha Virtual, Inc.)
- 10.4 Rental Agreement dated April 30, 2004 by and between Insignia Corporate Establishments and the Registrant.
- 14.1 Code of Ethics.
- 16.1 Letter dated February 24, 2004 from Beckman Kirkland & Whitney to the Securities and Exchange Commission (incorporated by reference to Exhibit 16.1 to the Registrant's current report, as amended, on Form 8-K/A filed with the SEC on February 24, 2004).
- 21.1 List of Subsidiaries.
- 23.1 Consent of Kabani & Company, Inc. regarding Esstec, Inc.
- 24.1 Power of Attorney (included on the signature page).
- 31.1 Certification of Chief Executive Officer pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer pursuant to Item 601(b)(31) of Regulation S-B, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K.

During the fourth quarter of the year ended December 31, 2003, we filed the following reports on Form 8-K:

(i) On October 21, 2003, we filed an Amendment to a Current Report on Form 8-K/A with the Securities and Exchange Commission related to our merger with and acquisition of EssTec, Inc. through a wholly-owned subsidiary, Alpha Acquisition Corporation. The original Current Report was filed on May 22, 2003. Our Amendment to the Current Report contained Financial Statements of Businesses Acquired and Pro Forma Financial Information pursuant to Item 7, which were impracticable to file with the original Current Report.

(ii) On December 10, 2003, we filed a Current Report on Form 8-K with the Securities and Exchange Commission regarding the execution of an Agreement and Plan of Merger between Veridicom, Inc. and us pursuant to which we acquired Veridicom, Inc. through a wholly-owned subsidiary, A/V Acquisition Corporation. The Current Report included Item 1 (Change in Control of Registrant) and Item 2

(Acquisition or Disposition of Assets). Item 7's Financial Statements of Businesses Acquired and Pro Forma Financial Information were impracticable to file in the Current Report and were subsequently filed in an Amendment to the Current Report on a Form 8-K/A. The Current Report had attached as exhibits a copy of the Agreement and Plan of Merger (Exhibit 2.1) and a copy of our press release (Exhibit 99.1).

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Beckman Kirkland & Whitney ("Beckman") resigned as our independent certified public accountant on February 11, 2004. Beckman audited Veridicom's financial statements for the fiscal years ended December 31, 2002 and 2001. Following Beckman's resignation, the Board selected AJ Robbins, PC to serve as our certified public accountant.

Beckman's report on Veridicom's financial statements for the fiscal years ended December 31, 2002 and 2001 did not contain any adverse opinion or disclaimer of opinion and were not qualified as audit scope or accounting principles. The reports for the fiscal years ended December 31, 2002 and 2001 were qualified reports in that adverse financial conditions identified by the accountants raised substantial doubt about our ability to continue as a going-concern. During the recent fiscal year ended December 31, 2003, there were no disagreements with and Beckman on any matter of accounting principles or practices, financial statement disclosure or auditing scope or procedure which, if not resolved to the satisfaction of Beckman, would have caused it to make reference to the subject matter of the disagreement in connection with its reports.

Aggregate fees billed by our independent certified public accountants for the years ended 2003 and 2002 are as follows:

	2003	2002
	-----	-----
Audit fees.....	\$ 90,000	\$ 32,500
Audit related fees.....	\$ --	\$ --
Tax fees.....	\$ --	\$ --
All other fees.....	\$ --	\$ --

The Board has considered the provision of non-audit services provided by our independent certified public accounts to be compatible with maintaining their independence. The Board will continue to approve all audit and permissible non-audit services provided by our independent certified public accountants. These services may include audit services and related services, tax services, and other services.

SIGNATURES

In accordance with Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

By: /s/ Paul Mann

 Name: Paul Mann
 Title: President
 (Principal Executive Officer)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each of the persons whose signature appears below hereby constitutes and appoints Paul Mann and Bashir Jaffer, each of them acting individually, as his or her attorney-in-fact, each with the full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KSB, and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming our signatures as they may be signed by our said attorney-in-fact and any and all amendments to this Annual Report on Form 10-KSB.

In accordance with the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
----- /s/ Paul Mann ----- Paul Mann	President, Chief Executive Officer, Director (Principal Executive Officer)	May 18, 2004
----- /s/ Bashir Jaffer ----- Bashir Jaffer	Chief Financial Officer (Principal Financial Officer)	May 18, 2004
----- /s/ Saif Mansour ----- Saif Mansour	Director	May 18, 2004
----- /s/ Bill Cheung ----- Bill Cheung	Director, Secretary	May 18, 2004

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
 (FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
 INDEX TO FINANCIAL STATEMENTS

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Consolidated Statements of Cash Flows	F-8
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AJ. ROBBINS, P.C.
216 SIXTEENTH STREET
SUITE 600
DENVER, COLORADO 80202

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
Veridicom International, Inc.
(f/k/a Alpha Virtual, Inc.)
Beverly Hills, California

We have audited the accompanying consolidated balance sheet of Veridicom International, Inc. (formerly known as Alpha Virtual, Inc.) as of December 31, 2003, and the related consolidated statements of operations and other comprehensive income (loss), changes in stockholders' equity (deficit), and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Veridicom International, Inc. (formerly known as Alpha Virtual, Inc.) as of December 31, 2003, and the results of its operations and its cash flows for the year then ended in conformity with generally accepted accounting principles in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about the entity's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

AJ. Robbins, P.C.
Certified Public Accountants

Denver, Colorado
April 7, 2004

INDEPENDENT AUDITORS' REPORT

Board of Directors
Esstec, Inc. and subsidiary

We have audited the accompanying consolidated balance sheet of Esstec, Inc. and subsidiary as of December 31, 2002, and the related consolidated statements of operations, stockholders' deficit and cash flows for the year ended December 31, 2002. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We did not audit the financial statements of Essential Tec of Pakistan, whose statements reflect combined total assets of approximately \$94,240 as of December 31, 2002 and combined total net revenues of \$24,528 for the year then ended; Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Essential Tec of Pakistan for the year ended December 31, 2002, is based solely on the report of the other auditors. The 2001 consolidated financial statements were audited by other auditors whose report dated May 10, 2002, on those statements included an explanatory paragraph describing conditions that raised substantial doubt about the Company's ability to continue as a going concern.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 consolidated 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. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Esstec, Inc. and subsidiary as of December 31, 2002, and the results of its consolidated operations and its cash flows for the year ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As shown in the financial statements, the Company has incurred net losses from operations, has negative cash flows from operations, and has a net working capital deficit. These factors raise substantial doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 11. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

KABANI & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Fountain Valley, California
August 22, 2003

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED BALANCE SHEET
December 31, 2003

ASSETS	

Current Assets	
Cash and cash equivalents	\$ 126,367
Accounts receivable	13,497
Accounts receivable from affiliates	77,960
Inventory	89,803
Other current assets	10,259

Total current assets	317,886
Furniture & equipment, net	73,803
Patents	200,000
Goodwill	936,520
Other assets	3,300

Total assets	\$ 1,531,509
	=====

LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)

Current liabilities	
Accounts payable	\$ 720,616
Accrued expenses	673,523
Due to related parties	347,006
Notes payable	549,549

Total current liabilities	2,290,694

Minority Interest	25,006

Stockholders' Equity (Deficit)	
Common stock, \$.001 par value, 60,000,000 authorized; 9,450,689 issued and outstanding	9,450
Additional paid in capital	7,280,603
Common stock reserved	10,000
Accumulated other comprehensive loss	(3,693)
Accumulated (deficit)	(8,080,551)

Total stockholders' equity (deficit)	(784,191)

	\$ 1,531,509
	=====

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED STATEMENTS OF OPERATIONS AND OTHER COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
	----	----
Revenues		
Net revenue	\$ 281,997	\$ 394,011
Cost of goods sold	116,007	167,209
	-----	-----
Gross profit	165,990	226,802
Expenses		
General and administrative expenses	1,727,517	1,530,856
Research and development	-	122,188
Impairment of goodwill	1,809,648	-
Depreciation	18,105	39,846
	-----	-----
Loss from operations	(3,389,280)	(1,466,088)
Other income (expense)		
Other income	6,692	62
Loss of equipment	-	(34,348)
Loss on sale of equipment	-	(11,238)
Gain on cancellation/forgiveness of debt	556,104	-
Interest expense	(60,835)	(278,905)
	-----	-----
Total other income (expense)	501,961	(324,429)
(Loss) before minority interest	(2,887,319)	(1,790,517)
Minority Interest	4,629	-
	-----	-----
Net (Loss)	(2,882,690)	(1,790,517)
Other comprehensive loss		
Foreign currency translation adjustment	(741)	(717)
	-----	-----
Comprehensive loss	\$ (2,883,431)	\$ (1,791,234)
	=====	=====
Earnings (loss) per share:		
Basic and fully diluted (loss) per common share	\$ (0.51)	\$ (0.49)
	=====	=====
Weighted average common shares outstanding basic and fully diluted	5,662,025	3,661,847

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

<TABLE>

<u><S></u>	Common Stock Shares	\$.001 par value Amount	Common Stock Committed	Deferred Compensation	Additional Paid In Capital	Accumulated Other Compre- hensive Loss	Accumulated (Deficit)	Total Stockholders' Equity (Deficit)
<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>	<u><C></u>
Balances, December 31, 2001	3,242,117	\$ 3,242	\$ 76,000	\$ (137,759)	\$3,025,877	\$ (2,235)	\$ (3,406,692)	\$ (441,567)
Issuance of common stock for cash	17,000	17	-	-	84,983	-	-	85,000
Issuance of committed stock	129,524	130	(80,000)	-	79,870	-	-	-
Issuance of stock options and warrants to employees as compensation	-	-	-	(766,250)	1,350,000	-	-	583,750
Issuance of warrants for services rendered	-	-	-	-	76,477	-	-	76,477
Amortization of employee stock options	-	-	-	287,614	150,000	-	-	437,614
Adjustment of deferred compensation	-	-	-	139,254	(139,254)	-	-	-
Exercise of warrants in lieu of payment of accounts payable	274,102	274	-	-	81,957	-	-	82,231
Exercise of warrants in lieu of compensation	25,000	25	-	-	7,474	-	-	7,499
Exercise of warrants for cash	518,253	518	15,000	-	144,959	-	-	160,477
Issuance of common stock as interest expense	53,500	53	-	-	267,447	-	-	267,500
Collection of loan receivable in lieu of issuance of committed stock	-	-	(1,000)	-	-	-	-	(1,000)
Foreign currency translation adjustment	-	-	-	-	-	(717)	-	(717)
Net loss	-	-	-	-	-	-	(1,791,169)	(1,791,169)
Balances, December 31, 2002	4,259,496	4,259	10,000	(477,141)	5,129,790	(2,952)	(5,197,861)	(533,905)

</TABLE>

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT) (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

<TABLE>

	Common Stock Shares	\$.001 par value Amount	Common Stock Committed	Deferred Compensation	Additional Paid In Capital	Accumulated Other Compre- hensive Loss	Accumulated (Deficit)	Total Stockholders' Equity (Deficit)
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Reverse merger with Alpha Virtual, Inc.	1,515,897	1,516	-	-	1,003,308	-	-	1,004,824
Amortization of deferred compensation	-	-	-	477,141	-	-	-	477,141
Sales of common stock net of offering costs of \$106,603	155,296	155	-	-	619,445	-	-	619,600
Stock issued for services	20,000	20	-	-	58,780	-	-	58,800
Stock issued in acquisition of Veridicom, Inc.	3,500,000	3,500	-	-	414,760	-	-	418,260
Stock options granted for services	-	-	-	-	54,520	-	-	54,520
Foreign currency translation adjustment	-	-	-	-	-	(741)	-	(741)
Net (loss)	-	-	-	-	-	-	(2,882,690)	(2,882,690)
Balances, December 31, 2003	9,450,689	\$ 9,450	\$ 10,000	\$ -	\$ 7,280,603	\$ (3,693)	\$ (8,080,551)	\$ (784,191)
	=====	=====	=====	=====	=====	=====	=====	=====

</TABLE>

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED STATEMENTS CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002
Cash flows from operating activities	-----	-----
Net loss before minority interest	\$ (2,887,319)	\$ (1,790,517)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	18,105	39,846
Bad debt expense	38,216	68,215
Loss on equipment disposal	--	45,586
Impairment of goodwill	1,809,648	--
(Gain) on cancellation/forgiveness of debt	(556,104)	--
Stock-based compensation	531,661	1,021,364
Common stock issued for services rendered	58,800	76,477
Common stock issued as interest expense	--	267,500
Transfer of equipment to Cavo	18,336	--
(Increase) / decrease in: Accounts receivable	(7,901)	19,462
Related party receivables	(50,404)	46,528
Prepaid expenses and other assets	88,480	16,196
Increase / (decrease) in :		
Accounts payable	(145,628)	(161,661)
Accrued expenses	37,065	32,977
Due to related parties	157,059	29,616
Deferred compensation	(140,618)	28,503
Net cash used in operating activities	-----	-----
	(1,030,604)	(259,908)
Cash flows from investing activities		
Proceeds from equipment sales	--	12,867
Cash acquired through merger and acquisition	184,001	--
Purchase of property and equipment	(19,314)	--
Net cash provided by (used in) investing activities	-----	-----
	164,687	12,867
Cash flows from financing activities		
Net proceeds from note payable	346,549	20,000
Payments on notes payable	(20,000)	--
Payments on capital lease obligation	(5,423)	(4,439)
Proceeds from the exercise warrants	--	160,477
Sale of minority interest	29,635	--
Proceeds from sale of common stock and warrants	619,600	85,000
Net cash provided by financing activities	-----	-----
	970,361	261,038
Effect of exchange rate changes on cash	-----	-----
	(741)	(717)
Net increase (decrease) in cash	-----	-----
	103,703	13,280
Cash, beginning of period	-----	-----
	22,664	9,384
Cash, end of period	-----	-----
	\$ 126,367	\$ 22,664
	=====	=====

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
CONSOLIDATED STATEMENTS CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002
(Continued)

	2003	2002
Supplemental disclosures of cash flow information		
Interest paid	\$ --	\$ 822
	=====	=====
Income taxes paid	\$ --	\$ 800
	=====	=====

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Background

Veridicom International, Inc., (the Company, formerly known as Alpha Virtual, Inc. ("Alpha")) is a Delaware Corporation formerly headquartered in California that was formed on September 9, 1987. The name of the Company was changed to Veridicom International, Inc. in February 2004. The Company consolidated its corporate offices in Seattle, Washington, and Vancouver, British Columbia in April 2004.

Going Concern

The Company's financial statements have been presented on the basis that it is a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The Company has incurred a net loss of \$2,882,690 and has a working capital deficit and a stockholder deficit, which raises substantial doubt about its ability to continue as a going concern. The Company is currently devoting its efforts to raising additional capital and investigating potential merger candidates. The Company's ability to continue as a going concern is dependent upon its ability to develop additional sources of capital, and ultimately, achieve profitable operations. The accompanying financial statements do not include any adjustments that might result from the outcome of these uncertainties.

Mergers

On April 28, 2003 the Company and Esstec Inc., a privately held Nevada corporation, entered into an Agreement and Plan of Merger. In accordance with the Merger, on May 8, 2003, the Company, through its wholly owned subsidiary, Alpha Acquisition Corporation ("AAC"), a Nevada Corporation, acquired Esstec in exchange for 4,276,162 shares of the Alpha's common stock. For accounting purposes Esstec acquired Alpha in a reverse merger under the purchase method of accounting. The financial statements in the filings of Alpha became those of Esstec. The legal entity (Alpha) retained its name until it was changed to Veridicom International, Inc. in February 2004. Thus, the financial statements are still those of "Esstec, Inc."

On November 25, 2003, the Company entered into an Agreement and Plan of Merger with Veridicom, Inc. (Veridicom), a California corporation, through AAC, a Nevada corporation, whereby the Company acquired Veridicom in exchange for 3,500,000 shares of Veridicom's common stock. 3,250,000 shares were issued to the holders of Veridicom's stock, and 250,000 shares were issued into escrow to cover Veridicom's indemnification obligations, if any. Veridicom's stockholders owned approximately 35% of the Company's common stock outstanding as of November 25, 2003.

On January 16, 2004, the Company entered into an Agreement and Plan of Merger with Cavio Corporation, a privately held Washington corporation ("Cavio"). The

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mergers (Continued)

merger became effective on February 20, 2004 following a special meeting of Cavio's stockholders. In accordance with the merger, on February 20, 2004, through its wholly owned subsidiary, A/VII Acquisition Corporation, a Nevada corporation, acquired Cavio in exchange for 5,000,000 shares of our common stock.

The following unaudited proforma condensed consolidating statement of operations for the year ended December 31, 2003 gives effect to each of the above transactions as if they had occurred on January 1, 2003.

<TABLE>

	Veridicom International, Inc. Consolidated for the Year Ended December 31, 2003	Alpha Virtual, Inc. For the One Month Ended April 30, 2003	Veridicom, Inc. For the Eleven Months Ended November 30, 2003	Cavio Corporation for the Year Ended October 31, 2003	Proforma Adjustments	Proforma Consolidated
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Revenues	\$ 165,990	\$ -	\$ 359,511	\$ -	\$ -	\$ 525,501
(Expenses)	(3,555,270)	(26,351)	(1,598,797)	(666,287)	-	(5,846,705)
Other income/(expense)	506,590	-	9,458	(121,937)	-	394,111
Net loss	\$(2,882,690)	\$(26,351)	\$(1,229,828)	\$(788,224)	\$ -	\$(4,927,093)

</TABLE>

Change in Year End

On May 8, 2003, in connection with the Esstec merger, Alpha changed its fiscal year end from March 31 to December 31.

Operations

Esstec, Inc. ("Esstec") is a professional services company that focuses on e-commerce initiatives, interactive multimedia, and mobile software applications for clients in various industries, including the telecommunications and entertainment industries.

Essential Tec Pakistan (Private) Limited ("Pakistan") was incorporated on April 19, 2000 to establish the business of software development for the international markets and to export software and technology. Esstec owns approximately 63.4% of Pakistan.

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Operations (Continued)

Veridicom designs, manufactures and delivers hardware and software products that enable strong authentication solutions based on fingerprint biometrics. Veridicom markets a complete fingerprint biometrics platform on which applications can be built.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries Esstec, Inc., Essential Tec Pakistan (Private) Limited, and Veridicom, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Minority Interest

Minority interest reflects the ownership of minority shareholders in the equity of Pakistan, a consolidated subsidiary less than wholly owned.

Reclassifications

For comparative purposes, prior year's consolidated financial statements have been reclassified to conform to report classifications of the current year.

Goodwill

Goodwill was recorded at its purchase price and is not being amortized. Pursuant to SFAS 142 ("Goodwill and Other Intangible Assets") and SFAS 144 ("Accounting for the Impairment or Disposal of Long-Lived Assets"), the Company has evaluated its goodwill for impairment and determined that the fair value of its goodwill is \$936,520 and has recognized a \$1,809,648 impairment charge.

Valuation of the Company's Common Stock

Unless otherwise disclosed, all stock based transactions entered into by the Company have been valued at the market value of the Company's common stock on the date the transaction was entered into or have been valued using the Modified Black-Scholes European Model to estimate the fair market value.

Concentrations of Credit Risk

Financial instruments, which potentially expose the Company to concentrations of credit risk, consist primarily of trade accounts receivable. The Company maintains reserves for potential credit losses and such losses, in the aggregate, have not exceeded management's expectations.

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising Expenses

The Company expenses advertising costs as incurred. During the years ended December 31, 2003 and 2002, the Company did not have significant advertising costs.

Fair Value of Financial Instruments

The carrying amounts of cash, accounts receivable, notes payables, accounts payable, and accrued expenses approximate fair value because of the short maturity of these items.

Recently Issued Accounting Pronouncements

In July 2001 the Financial Accounting Standards Board ("FASB") issued SFAS No. 142 Goodwill and Other Intangible Assets (SFAS 142). Under SFAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company was required to adopt SFAS 142 effective January 1, 2002. The Company has determined that the fair value of its goodwill is \$936,520 and has recognized a \$1,809,648 impairment charge.

In July 2001 the FASB issued SFAS No. 143, Accounting for Asset Retirement Obligations, which addresses accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 will be effective for the Company for the fiscal year beginning January 1, 2003 and early adoption is encouraged. SFAS No. 143 requires that the fair value of a liability for an asset's retirement obligation be recorded in the period in which it is incurred and the corresponding cost capitalized by increasing the carrying amount of the related long-lived asset.

The Company has adopted SFAS No. 143 and its adoption did not have a material impact on its financial statements.

In August 2001 the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS No. 144 is effective for the Company on January 1, 2002 and addresses accounting and reporting for the impairment or disposal of long-lived assets. SFAS No. 144 supersedes SFAS No. 121, accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and APB Opinion No. 30, reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business. SFAS No. 144 retains the fundamental provisions of SFAS No. 121 and expands the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Issued Accounting Pronouncements (Continued)

ongoing operations of the entity in a disposal transaction. The Company has adopted SFAS No. 144 and its adoption did not have a material impact on its financial statements.

In April 2002 the FASB issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of SFAS Statement No. 13, and Technical Corrections ("SFAS145"). This statement rescinds the requirement in SFAS No. 4, Reporting Gains and Losses from Extinguishment of Debt, that material gains and losses on the extinguishment of debt be treated as extraordinary items. The statement also amends SFAS No. 13, Accounting for Leases, to eliminate an inconsistency between the accounting for sale-leaseback transactions and the accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Finally the standard makes a number of consequential and other technical corrections to other standards. The provisions of the statement relating to the rescission of SFAS 4 are effective for fiscal years beginning after May 15, 2002. Provisions of the statement relating to the amendment of SFAS 13 are effective for transactions occurring after May 15, 2002 and the other provisions of the statement are effective for financial statements issued on or after May 15, 2002. The Company has adopted SFAS 145 and its adoption did not have a material effect on its financial statements.

In July 2002 the FASB issued SFAS No. 146, Accounting for Exit or Disposal Activities ("SFAS 146"). SFAS 146 applies to costs associated with an exit activity (including restructuring) or with a disposal of long-lived assets. Those activities can include eliminating or reducing product lines, terminating employees and contracts, and relocating plant facilities or personnel. SFAS 146 will require a Company to disclose information about its exit and disposal activities, the related costs, and changes in those costs in the notes to the interim and annual financial statements that include the period in which an exit activity is initiated and in any subsequent period until the activity is completed. SFAS 146 supersedes Emerging Issues Task Force Issue No. 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring), and requires liabilities associated with exit and disposal activities to be expensed as incurred and can be measured at fair value. SFAS 146 is effective prospectively for exit or disposal activities initiated after December 31, 2002, with earlier adoption encouraged. The Company has adopted SFAS 146 and its adoption did not have a material effect on its financial statements.

In December 2002 the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of SFAS No. 123. This Statement amends SFAS No. 123 to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation from the intrinsic value based method of accounting prescribed by APB No. 25. In addition, this Statement amends the disclosure

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Recently Issued Accounting Pronouncements (Continued)

requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. Under the provisions of SFAS No. 148, companies that choose to adopt the accounting provisions of SFAS No. 123 will be permitted to select from three transition methods: Prospective method, Modified Prospective method and Retroactive Restatement method. The transition and annual disclosure provisions of SFAS No. 148 are effective for the fiscal years ending after December 15, 2002. The Company has adopted SFAS No. 148 and its adoption did not have a material effect on the financial statements.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51 ("FIN 46"). The primary objectives of FIN 46 are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights (Variable Interest Entities or "VIEs") and to determine when and which business enterprise should consolidate the VIE. This new model for consolidation applies to an entity which either (1) the equity investors (if any) do not have a controlling financial interest or (2) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. The disclosure requirements of FIN 46 became effective for financial statements issued after January 31, 2003. The adoption of this interpretation did not have an impact on the Company's financial statements.

In April 2003, FASB issued SFAS No. 149, "Accounting for Derivative Instruments and Hedging Activities," ("SFAS 149") which is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. This statement amends and clarifies financial accounting and reporting for derivative instruments including certain instruments embedded in other contracts and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The Company has adopted SFAS 149 and its adoption did not have a material effect on its financial statements.

In May 2003, FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," ("SFAS 150") which is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. SFAS 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. The Company has adopted SFAS 150 and its adoption did not have a material effect on its financial statements.

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory

Inventory consists primarily of various sensors, combos and parallel port units. Inventory is valued at lower of cost (first-in, first-out) or market.

Furniture and Equipment

Furniture and equipment are recorded at cost. Depreciation and amortization expense is provided on a straight-line basis using estimated useful lives of 3-7 years. Depreciation expense was \$18,105 and \$39,846 for the years ended December 31, 2003 and 2002, respectively. Maintenance and repairs are charged to expense as incurred and expenditures for major improvements are capitalized. When assets are retired or otherwise disposed of, the property accounts are relieved of costs and accumulated depreciation and any resulting gain or loss is credited or charged to operations.

Patents

At the acquisition of Veridicom, the Company evaluated the unused patents and determined the costs to secure the patents outweighed their intended use and was unable to find a party interested in purchasing the patents. The patents were originally recorded at cost and were being amortized on a straight-line basis over 15 years. The Company has valued the patents at \$200,000.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company considers all funds with original maturities of three months or less to be cash equivalents.

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future income tax consequences of events that have been recognized in the Company's financial statements. Under this method, deferred tax assets and liabilities are determined based on temporary differences between the financial carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the periods in which the temporary differences are expected to reverse. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense represents the tax payable for the current period and the change during the period in deferred tax assets and liabilities. The Company has a net operating loss carry forward of approximately \$3,000,000 expiring beginning in 2020.

Revenue Recognition

Sales of services are recorded when performed in accordance with contracts. Revenues from software sales are recorded in accordance with SOP 97-2 `Software

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES (FORMERLY KNOWN AS ALPHA VIRTUAL, INC.) NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

Revenue Recognition', which requires that revenue recognized from software arrangements be allocated to the various elements of the arrangement based on the relative fair market values of the elements, such as software products, upgrades, enhancements, post contract customer support, installation or training. Revenue from product services are recognized at the time services are provided.

For fixed fee contracts, Esstec recognizes revenue based on the percentage completed, calculated as either the number of direct labor hours in the project to date divided by the estimated total direct labor hours, or based upon the completion of specific task benchmarks. It is Esstec's policy to record contract losses in their entirety in the period in which such losses can be estimated. Any revenues associated with pre-payments or pre-billings are deferred until revenue is earned. For non-fixed fee jobs, revenue is recognized as services are performed and adjusted to realization value, if necessary.

Pakistan recognizes revenue at the point/time the software is delivered/exported.

Veridicom recognizes revenues at the point of shipment of products.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive Loss

The Company utilizes Statement of Financial Accounting Standards ("SFAS") No. 130. "Reporting Comprehensive Income." This statement establishes standards for reporting comprehensive loss and its components in a financial statement. Comprehensive loss as defined includes all changes in equity (net assets) during a period from non-owner sources. Examples of items to be included in comprehensive loss, which are excluded from net loss, include foreign currency translation adjustments and unrealized gains and losses on available-for-sale securities. Comprehensive loss presented in these consolidated financial statements resulted from translations of foreign currency financial statements

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign Currency Translation

Pakistan considers the Pakistan Rupee to be the functional currency of its operations. The reporting currency of the Company is the U.S. dollar; accordingly, all amounts included in the financial statements have been translated into U.S. dollars.

Exchange Rates	For the year Ending 2003	For the Year Ending 2002
Average	.017331	.01648
Period end	.017479	

Software Development Costs

The software development costs were expensed as research and development costs as incurred until the software reached technological feasibility in accordance with Statement of Financial Accounting Standards No. 86, "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("SFAS 86").

Earnings Per Common Share

The Company computes earnings (loss) per common share in accordance with Statement of Financial Accounting Standards No. 128, Earnings Per Share (SFAS No. 128). This statement simplifies the standards for computing earnings per share (EPS) previously found in Accounting Principles Board Opinion No. 15, Earnings Per Share, and makes them more comparable to international EPS standards. SFAS No. 128 replaces the presentation of primary EPS with a presentation of basic EPS. In addition, the Statement requires dual presentation of basic and diluted EPS on the face of the income statement for all entities with complex capital structures and requires a reconciliation of the numerator and denominator of the basic EPS computation to the numerator and denominator of the diluted EPS computation.

NOTE 2 - ACCOUNTS RECEIVABLE

In December 1999 Alpha sold its PGTS training simulator to an unrelated entity. As part of the agreement, Alpha is entitled to royalty payments on future PGTS Training System sales by Eidetics for a four-year period from the date of sale. As of December 31, 2003 Alpha was owed approximately \$105,117 in past due royalties. A full allowance was recorded against this receivable. The Company continues to pursue collection of these royalties.

The Company has additional accounts receivable arising from a consulting contract, which was fully collected subsequent to December 31, 2003.

VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 - FURNITURE AND EQUIPMENT

Furniture and equipment consists of the following:

	2003
Tooling equipment	\$159,595
Furniture and equipment	27,065
Computers	91,390
Software	28,000
Vehicles	20,540

	326,590
Less accumulated depreciation and amortization	252,787

	\$ 73,803

NOTE 4 - DCAA AUDIT

The Company's books and records were subject to audit by the Defense Contract Audit Agency (DCAA) for defense contracts formerly serviced by Alpha. A DCAA audit remains open for a contract that was completed in 1994. The Company believes the costs charged to this contract were proper and should not result in adjustments in excess of the \$100,000 reserved for possible contract price adjustments. The amount reserved is believed to be adequate and is included in accrued expenses.

NOTE 5 - NOTES PAYABLE

The Company has notes payable totaling \$549,549 bearing interest at rates from 10%-12% per annum, maturing between January and August 2004. \$165,000 of the notes are convertible at the Company's option into shares of the Company's common stock. Certain note holders received warrants to purchase 33,000 shares of the Company's common stock at \$1.75 per share. The warrants were granted prior to the reverse merger and were previously valued and expensed due to the short-term nature of the loans by Alpha.

NOTE 6 - STOCK-BASED COMPENSATION

The Company accounts for stock based compensation under Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" (SFAS 123). The standard requires the Company to present the "fair value" method with respect to stock-based compensation of consultants and other non-employees.

The Company did not change its method of accounting with respect to stock options; the Company continues to account for these under the "intrinsic value" method. The Company recognized \$58,800 as stock based compensation to employees for the year ended December 31, 2003 for 20,000 shares issued to the Company's former president.

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - RELATED PARTY TRANSACTIONS

On July 15, 2003 Alpha entered into a consulting agreement for marketing strategy and support services for a term of three months and at the rate of \$7,000 per month plus the reimbursement of out of pocket expenses. This agreement continues and expands Government and commercial marketing activities previously undertaken for the OneView Technology, and extends these activities to include technology newly available from Esstec and Veridicom.

On July 15, 2003 Alpha entered into an advisory agreement with the principals of the consulting company in the above agreement to join the Company's Advisory Board to assist the Company's Board of Directors in structuring and advising as to strategic alliances and growth. The agreement is for one year and the principals were each granted options to acquire 10,000 shares of the Company's common stock at \$3.50 per share; options vest monthly over one year. The options were valued at \$54,520, the fair value using the Black-Scholes European Pricing Model. The average risk rate used was 3.3%, volatility was estimated at 100% and the expected life was one year.

The Company has entered into agreements with Manhattan Capital Partners ("Manhattan") and its affiliates to provide consulting and stock placement services. The Company paid Manhattan a total of \$205,673 during the year ended December 31, 2003. At December 31, 2003 Manhattan had advanced the Company \$110,005 in a non-interest bearing short-term loan, which was repaid in 2004. The Company has amounts outstanding for prior services rendered by affiliates of Manhattan totaling an additional \$236,801 and is negotiating to reduce the amounts owed under this agreement. Manhattan is related due to one of the principals being the former Chief Executive of Esstec.

NOTE 8 - COMMON STOCK

The Company has authorized 60,000,000 shares of \$.001 par value common stock and 2,000,000 shares of \$.001 par value preferred stock

Common Stock Issued during the Year Ended December 31, 2002

In January 2002, the Company issued 12,857 shares of common stock from committed stock for services rendered totaling \$45,000.

In February 2002, the Company issued 17,000 shares of common stock for cash

totaling \$85,000.

In March 2002, the Company issued 25,000 shares of common stock from the non-cash exercise of warrants by an officer of the Company in lieu of deferred compensation totaling \$7,499. During the year ended December 31, 2002, the Company issued 28,500 and 25,000 shares of common stock to a creditor for the extension of the due dates of the note payable and recorded interest expense totaling \$142,500 and \$125,000, respectively. During the year ended December 31,

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 - COMMON STOCK (Continued)

2002, the Company issued 518,253 shares of common stock for the exercise of warrants with cash totaling \$145,477 and recorded committed stock totaling \$15,000. During the year ended December 31, 2002, the Company issued 129,524 shares of common stock from committed stock totaling \$80,000. During the year ended December 31, 2002, the Company issued 100,000 shares of common stock from committed stock to an officer upon the exercise of warrants to purchase 100,000 shares of common stock at \$0.30 per share. In lieu of a cash payment for the exercise, the Company converted \$30,000 of accrued consulting fees.

During the year ended December 31, 2002, the Company issued 16,667 shares of common stock from committed stock upon the exercise of warrants.

Stock Option Plan

The Company maintains the 1999 Stock Option Plan, which provides for the granting of options to officers, directors, employees and consultants. 3,000,000 shares of common stock are reserved under the plan for the granting of options. As of December 31, 2003 the Company has 770,714 options outstanding with exercise prices ranging from \$.70 to \$3.50, expiring beginning in 2008.

NOTE 9 - COMMITMENTS AND CONTINGENCIES

On July 7, 2003 Alpha entered into a consulting agreement with TSC to assist in negotiating, arranging or developing funding to Alpha clients and projects for an initial term of 6 months for a non-refundable fee of \$50,000 payable as follows: \$25,000 upon securing \$1,000,000 of funding and \$5,000 per month for the remaining \$25,000 until paid in full and reimbursement of expenses. The agreement is extended for 3 years after termination if funding is secured with a prospect handled by TSC. Alpha will grant to TSC 120,000 warrants upon securing the \$1,000,000 in funding, to be distributed at 20,000 warrants per month from the date of closing, at an exercise price equal to the stock price on the date of exercise, expiring in 5 years. If funding exceeds \$2,000,000, a bonus of 50% of the above free structure of cash and warrants will be paid to TSC.

On October 31, 2002 the Company's Chief Technology Officer was discharged. On November 15, 2002 the two parties entered into a Settlement of Employment Agreement whereby Alpha agreed to pay and accrued \$30,000 in severance pay with monies received for royalties (See Note 2). Alpha will pay 50% of monies received up to \$30,000.

Litigation

On March 28, 2003 the Company and one of the company's stockholders filed a lawsuit in Superior Court against a former CEO of the Company. The lawsuit alleges a breach of fiduciary duty, negligence, fraud and breach of contract claiming the CEO did not devote his efforts to the Company's product development

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 - COMMITMENTS AND CONTINGENCIES (Continued)

Litigation (Continued)

and market strategies or maximize the profit of the business. An amount of damages has not been determined and the outcome of this lawsuit cannot be

determined at this time.

Five former employees of Veridicom, Inc. have filed claims against the Company with the Labor Commissioner in the State of California. The former employees allege that the Company owes unpaid wages, salaries and vacation pay for various periods between July 2000 to November 2003 amounting to a total of \$112,114. Management and legal advisors are reviewing the validity of the claim. The Company has accrued compensation payable at December 31, 2003.

In addition, the Company is a party to a number of other lawsuits arising in the normal course of business. In the opinion of management, the resolution of these matters will not have a material adverse effect on the Company's operations, cash flows or financial position.

Leases

The Company rented office space under various short-term month-month operating leases and is currently not obligated under any operating leases for office space.

Rent expense was \$26,841 and \$-0- for the years ended December 31, 2003 and 2002, respectively.

NOTE 10 - EARNINGS PER SHARE

	For the Year Ended December 31, 2003		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----
Basic EPS			
(Loss) available to common stockholders	\$ (2,882,690)	5,662,025	\$ (.51)
Effect of Dilutive Securities	--	--	--
	-----	-----	-----
Diluted EPS			
(Loss) available to common stockholders	\$ (2,882,690)	5,662,025	\$ (.51)
	=====	=====	=====

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
(FORMERLY KNOWN AS ALPHA VIRTUAL, INC.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 - EARNINGS PER SHARE (Continued)

	For the Year Ended December 31, 2002		
	Income (Numerator)	Shares (Denominator)	Per Share Amount
	-----	-----	-----
Basic EPS			
(Loss) available to common stockholders	\$ (1,790,517)	3,661,847	\$ (.49)
Effect of Dilutive Securities	--	--	---
	-----	-----	-----
Diluted EPS			
(Loss) available to common stockholders	\$ (1,790,517)	3,661,847	\$ (.49)
	=====	=====	=====

NOTE 11-GAIN ON CANCELLATION/FORGIVENESS OF DEBT

Effective October 31 2002, the Company entered into a License Agreement with its principal shareholder, Global Alpha Corporation ("GAC") wherein GAC was granted an exclusive license to the Company's software and systems commonly referred to as the "IC3D Framework" (the "System). The System encompasses substantially all of the Company's software including software developed to support multi-user online collaborative interactivity in a broad variety of applications employing a variety of virtual media over a number of networks including the Internet and intra-nets. Under the Agreement, GAC will pay to the Company a license fee of ten percent of the revenue generated from the sale or use of the System up to \$1,000,000, nine percent up to \$2,000,000, eight percent up to \$3,000,000 and,

thereafter, seven percent of the revenue generated. A minimum, annual license fee of \$25,000 for the year ending December 31, 2002 and December 31, 2003 must be paid to maintain the exclusive license. At March 31, 2003 the annual license fee of \$25,000 for 2002 had not been paid and the Company has waived the license fee based on discussions with GAC setting off the license fee against the short term debt of \$435,000 owed by the Company to GAC. The Company has sold to GAC the IC3D/OneView product in exchange for cancellation of the \$435,000 note and accrued interest of \$45,312 owed by Alpha.

In addition, the Company recognized a gain on the settlement of certain accounts payable of \$75,792.

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VERIDICOM INTERNATIONAL, INC. AND SUBSIDIARIES
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 - SUBSEQUENT EVENTS

The Company sold 370,514 shares of common stock for \$1,225,000 through March 31, 2004.

Office Closure (Unaudited)

Subsequent to December 31, 2003, the Company permanently closed the offices of Veridicom in Sunnyvale, California, on April 15, 2004, and is currently in the process on integrating and consolidating its software and hardware product divisions at its offices in Vancouver, British Columbia. The direct costs incurred by the company to-date, with respect to the closure and relocation of the Sunnyvale operations, amount to approximately \$40,000.

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EXECUTIVE EMPLOYMENT AGREEMENT

This EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") is made and entered into as of this 15th day of August 2003, by and between Alpha Virtual, Inc., a Delaware corporation (the "Company"), and Paul Mann, an individual (the "Executive"). Company or Executive are sometimes referred to herein as "party" or collectively "parties."

WHEREAS, the Company and Cavio Corporation have entered into a binding letter of intent whereby Cavio will become a wholly owned subsidiary of the Company (the "Transaction");

WHEREAS, Company and Executive now mutually desire to enter into this Agreement, to become effective upon the closing of the Transaction, in consideration of the mutual covenants and agreements hereinafter contained, and for other good and valuable consideration, it is hereby agreed by and between the parties hereto as follows:

1. Employment and Duties

1.1 Employment. Company hereby employs Executive as the President and

Chief Executive Officer of the Company and its subsidiaries and Executive hereby accepts such employment as of the Effective Date pursuant to the terms, covenants and conditions set forth herein.

1.2 Duties. While serving in these corporate capacities, Executive

shall have the responsibilities, duties, obligations, rights, benefits and requisite authority as is customary for his positions and as may be determined by the Company's Board of Directors (the "Board") and as may be set forth in the Bylaws of the Company and/or those of its subsidiaries. Executive shall perform said duties to the best of his ability and in a manner satisfactory to the Company.

1.3 Time and Efforts. Executive shall devote his professional full-time

efforts, attention, and energies exclusively to the business of the Company and its subsidiaries.

1.4 Place of Employment. Executive and the Company agree that during

the Term (as defined below), his services will be performed at Cavio Corporation's principal offices in Vancouver, British Columbia, or such other place as agreed to between the Executive and the Company, subject to any necessary travel requirements of his position and duties hereunder.

2. Term

Except as otherwise provided in this Agreement, the term of this Agreement (the "Term") shall be for a period of one year commencing upon the closing of the Transaction and shall automatically renew for successive periods of one year unless either party gives notice of the termination of the Agreement to the other not fewer than 30 days prior to the expiration of the applicable yearly period.

3. Compensation

3.1 Compensation. As the total consideration for Executive's services

rendered hereunder, Executive shall be entitled to annual compensation of \$175,000 ("Base Salary"), payable in accordance with ordinary Company payroll procedures and subject to applicable withholding. Executive shall also be eligible to earn an annual bonus of \$20,000 for every \$1.5 million in gross consolidated revenue of the Company for said year, said bonus to be paid no later than ninety (90) days following the end of said calendar year. The bonus shall be net of any amounts required to be withheld by the Company in respect to taxes.

3.2 Stock Options. Executive shall be entitled to a ten year Stock

Option under the Company Stock Option Plan for 150,000 shares of the Company's Common Stock at an exercise price of \$3.50 per share to be vested over a 24 month period. The Stock Option shall vest in full if this Agreement is terminated Without Cause further to Section 5.2 herein.

3.3 Expenses. During employment, Executive is entitled to reimbursement

for reasonable and necessary business expenses incurred by Executive in connection with the performance of Executive's duties and pursuant to applicable Company policy.

3.4 Vacation. Executive shall be entitled to receive twenty (20) days

of paid vacation each year. Executive's vacation shall be governed by the Company's usual policies applicable to all executives.

3.5 Benefits. Executive shall be entitled to participate in and receive

all benefits made available by the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans and arrangements, including without limitation, medical, dental, vision, life and disability insurance plans and coverage.

3.6 Work Permits. The Company shall use reasonable efforts to secure

all work permits and visas required by the Executive in those geographic areas where Executive is required to work to fulfill his duties hereunder.

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4. Proprietary Information

Executive shall execute the Company's Confidentiality, Proprietary Information, and Assignment of Inventions Agreement.

5. Termination

Executive's employment shall terminate upon the happening of any of the following:

5.1 Termination For Cause. The Company may terminate this Agreement for

Cause if the Board of Directors determines that Cause exists. For purposes of this Agreement, "Cause" shall mean:

(a) A proven act of dishonesty, fraud, embezzlement, or misappropriation of proprietary information in connection with the Executive's responsibilities as an Executive;

(b) Executive's conviction of, or plea of nolo contendere to, a felony;

(c) Executive's willful misconduct in connection with his employment duties that is detrimental to the Company and which cannot be cured on reasonable notice to Executive; or

(d) Executive's failure or refusal to perform his employment duties under this Agreement if such failure or refusal is not cured by Executive within twenty (20) days after receiving written notice thereof from the Company.

(e) In the event of Executive's termination for Cause pursuant to this section 5.1, Executive shall not be entitled to severance pay or further salary.

5.2 Termination Due to Disability or Death. Executive's employment

hereunder may be terminated by the Company as follows:

(a) To the extent permitted by law, upon thirty (30) days' notice to Executive in the event that Executive has been unable to perform substantially all of his duties under this Agreement for an aggregate of 90 days (inclusive of weekends and holidays) within any 12-month period, as the result of Executive's incapacity to perform the essential functions of his job due to a physical or mental disability and after reasonable accommodation made by the Company, and within thirty (30) days of receipt of such notice, Executive shall not have returned to the full-time, continuing performance of his duties hereunder; or

(b) Immediately upon the death of Executive.

(c) In the event of Executive's termination due to disability or death pursuant to this section 5.2, Executive shall not be entitled to severance pay or further salary.

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5.3 Voluntary Termination. Executive's employment hereunder may be

terminated by Executive for any reason (other than by Termination Due to Disability or Death) upon Executive providing Company with thirty (30) days' notice of Executive's voluntary termination. In the event of Executive's voluntary termination pursuant to this section 5.3, Executive shall not be entitled to severance pay or further salary.

6. Non-Solicitation

During Executive's employment with Company and for a period of six (6) months following termination for any reason, Executive shall not, directly or indirectly, solicit business from, divert business from, or attempt to convert to other methods of using the same or similar products or services as provided by Company, any client, account or location of Company with which Executive has had any contact as a result of his engagement by Company.

7. Assignment

This Agreement is personal in nature, and neither this Agreement nor any part of any obligation herein shall be assignable by Executive. The Company shall be entitled to assign this Agreement to any affiliate of the Company that assumes the ownership and control of the business of the Company.

8. Severability

Should any term, provision, covenant or condition of this Agreement be held to be void or invalid, the same shall not affect any other term, provision, covenant or condition of this Agreement, but such remainder shall continue in full force and effect as though each such voided term, provision, covenant or condition is not contained herein.

9. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of California applicable to contracts made and to be carried out in California.

10. Arbitration Agreement

Both Executive and the Company mutually agree that any and all disputes between Executive and the Company (including any of the Company's related entities, employees, officers, directors, agents or assigns), that arise out of or relate to Executive's employment with, recruitment to, investment in, or termination from the Company shall be resolved through final and binding arbitration, pursuant to the Federal Arbitration Act and applicable California law. This shall include any controversy, claim or dispute of any kind relating to employment, including, without limitation, claims for breach of contract; claims for wages, benefits or compensation; claims based on tort, public policy, emotional distress, defamation, fraud or misrepresentation; claims for unfair competition or concerning the unauthorized use and/or disclosure of any confidential information, trade secret or any other intellectual property right; and any statutory claims relating to employment, including discrimination, harassment, or retaliation under Title VII of the Civil Rights Act of 1964, the

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Age Discrimination in Employment Act, the Americans with Disabilities Act, the Family and Medical Leave Act, the California Fair Employment and Housing Act, the California Labor Code, or any other federal, state or local law or regulation now in existence or hereinafter enacted relating to employment.

The only claims not covered by this Arbitration Agreement are (a) claims for workers' compensation benefits, unemployment insurance, or state and federal disability insurance, which shall be brought according to their applicable laws, and (b) any other dispute or claim that has been expressly excluded from arbitration by statute.

Either party may initiate the arbitration process by submitting a written demand letter to the other party briefly setting forth the nature of the claim or dispute, including a short factual summary of the supporting allegations. To be timely, the letter demand must be received by the other party within the time limits established by any applicable statute of limitations with respect to the asserted claims. Any disputes and/or claims required to be

submitted to arbitration under this Agreement shall be conducted by a neutral arbitrator pursuant to the applicable rules of the American Arbitration Association, subject to any applicable discovery or other rules required by California law, and also subject to the right of either party to seek provisional remedies as provided by the California Code of Civil Procedure ss.1281.8.

The arbitration shall be held in Los Angeles, California. The Company shall pay the costs directly related to the arbitration, including the arbitrator's fees and any administrative fees. Each party shall otherwise bear their own respective attorneys' fees and costs, including the costs of any expert witnesses, depositions, travel or similar costs, unless an applicable contract or statute provides otherwise to the prevailing party, in which case the arbitrator shall make such determinations as required or permitted by law.

The arbitrator shall issue a written decision or award that sets forth the essential findings and conclusions on which the award is based. The arbitrator shall have the authority to award all of the types of relief or damages that would otherwise be available in a civil court proceeding.

THE ARBITRATION SHALL BE INSTEAD OF ANY CIVIL LITIGATION, MEANING THAT THE EXECUTIVE AND THE COMPANY ARE WAIVING ANY RIGHT TO A JURY TRIAL, AND THE ARBITRATOR'S DECISION SHALL BE FINAL AND BINDING TO THE FULLEST EXTENT PERMITTED BY LAW, SUBJECT ONLY TO ANY LIMITED JUDICIAL REVIEW AS REQUIRED OR PERMITTED BY APPLICABLE LAW.

11. Binding Agreement

This Agreement shall inure to the benefit of and shall be binding upon the Company, its successors and assigns.

12. Captions

The Section captions herein are inserted only as a matter of convenience and reference and in no way define, limit or describe the scope of this Agreement or the intent of any provisions hereof.

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13. Entire Agreement

This Agreement contains the entire agreement of the parties relating to the subject matter hereof, and the parties hereto have made no agreements, representations or warranties relating to the subject matter of this Agreement that are not set forth otherwise herein. In this regard, each of the parties represents and warrants to the other party that such party is not relying on any promises or representations that do not appear in writing herein. This Agreement supersedes the prior Letter Agreement with the Company, except as specifically referenced herein. Each of the parties further agrees and understands that this

Agreement can be amended or modified only by a written agreement signed by all parties.

14. Notice

All notices and other communications under this Agreement shall be in writing and mailed, telegraphed, telecopied, or delivered by hand (by a party or a recognized courier service) to the other party.

15. Attorneys' Fees

In the event that any party shall bring an action or proceeding in connection with the performance, breach or interpretation of this Agreement, then the prevailing party in any such action or proceeding, as determined by the court or other body having jurisdiction, shall be entitled to recover from the losing party all reasonable costs and expenses of such action or proceeding, including reasonable attorneys' fees, court costs, costs of investigation, expert witness fees and other costs reasonably related to such action or proceeding.

IN WITNESS WHEREOF, this Agreement is executed as of the day and year first above written.

"COMPANY"

ALPHA VIRTUAL, INC.,
a Delaware corporation

By: /s/ Charles Lesser

Name: Charles Lesser
Title: President

And

"EXECUTIVE"

/s/ Paul Mann

Paul Mann

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LEASE - COMMERCIAL

THIS LEASE made the 20th day of February, 2004,

BETWEEN:

GASTOWN INVESTMENT 21 LTD., a body corporate having
Its offices at Suite 600 - 21 Water Street, In the
City of Vancouver, British Columbia V6B 1A1
(hereinafter called the "Landlord") OF THE FIRST PART

AND:
Veridicom International (Canada) Inc,
#501 - 21 Water Street, Vancouver, British
Columbia, V6B 1A1 (hereinafter called the "Tenant") OF THE SECOND PART

AND:

----- OF THE THIRD PART

WITNESS that in consideration of the rents, covenants and agreements hereinafter reserved and contained on the part of the Tenant to be paid, observed and performed, the Landlord has demised and leased and by these presents does demise and lease to the Tenant the demised premises as hereinafter described, all on the terms, Conditions and covenants as hereinafter set forth.

A. DEFINITIONS

In this Lease:

- 1. "Area of Leased Premises" means the area of the floor space of the Leased Promises in square feet measured from the centre of partition walls and from the exterior surface of the exterior walls, and for the purposes of this Lease is 8,200 square feet more or less;
- 2. "Building" means the building located on the Lands, and Includes all fixtures, machinery and equipment situate therein;
- 3. "Leased Premises" means that portion of the Building having a civic address of 21 Water Street, Vancouver, British Columbia shown outlined in red on the plan attached hereto as schedule A;
- 4. "Lands" means the lands situate in Vancouver, British

Columbia, having a civic address of 21 Water Street, Vancouver, British Columbia, arid, more particularly described as:

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City of Vancouver
Lots 12 and 13
Block 1 Old Granville Townsite
Plan 168

5. "Real Property Taxes" means ail real property, sewer, municipal and other property taxes and rates, whether general or special, of any nature whatsoever, including assessed by any lawful authority, and any other taxes, assessments or duties levied, rated, charged or assessed in substitution for any of the foregoing taxes, against or with respect to the Lands or the Building;
6. "Tenant's Proportionate Share" means a fraction, having as its numerator the Area of the Leased Premises and as its denominator the Total Rentable Area; and
7. "Total Rentable Area" means the area in square feet of all floor space in the Building, including the Leased Premises, which are teased or occupied, or which the Landlord Intends to be leased or occupied, by tenants or licensees.

1. DEMISED PREMISES

1.1 The demised premises when referred to in this Lease shall mean the premises at 21 Water Street, Vancouver, British Columbia, Unit 501, 502, 503 & 504 being comprised of 8,200 square feet more or less on the 5th floor of the building located on the lands known as 21 Water Street, Vancouver, British Columbia ("the lands"), more particularly shown outlined in red on the plan attached hereto as Schedule A. Civic address being Unit 501, 21 Water Street, Vancouver, British Columbia V88 1A1.

2. TERM

2.1 TO HAVE AND TO HOLD the demised premises for and during the term of Three (3) Years commencing on the 1st day of March, 2004 and terminating on the 28th day of February, 2007, subject to earlier termination in accordance with the provisions hereof.

3. BASIC RENT AND OPERATING EXPENSES

3.1 Yielding and paying therefor during the said term of the Rent of THREE HUNDRED SIXTY NINE THOUSAND (\$369,000.00) plus GST of Lawful money of Canada at the office of Pacific Asset Management Corp., Suite 410, 145 Chadwick Court, North Vancouver, British Columbia, V7M 3K1, or at such other place as the Landlord may designate in writing.

If the commencement date does not foil upon the first day of a month, the first payment shall be adjusted according to the portion of the month included in the term. All rent and additional rent (as hereinafter described) shall bear interest at the rate of 1-1/2% per month (18% per annum) from the date upon which it becomes payable by the Tenant until paid.

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3.2 Yielding and paying therefore to the Landlord a basic monthly rent and estimated operating expenses for the demised premises in advance without deductions an the 1st day of each and every month as follows:

Commencing March 1st, 2004 the sum of \$9,908.33 on account of rent and \$4,954.17 towards estimated operating expenses plus

GST on the first day of each and every month up to and including the first day of February, 2005.

Commencing March 1st, 2005 the sum of \$10,250.00 on account of rent and shall pay estimated operating expenses plus GST in

accordance with Clause 12.5 of the Lease on the first day of each and every month up to and including the first day of February, 2008.

Commencing March 1st, 2006 the sum of \$90,591.67 on account of rent and shall pay she estimated operating expenses plus GST

in accordance with Clause 12.5 of the Lease on the first day of each and every month up to and Including the first day of February, 2007.

3.3 The Tenant will provide to the Landlord post-dated rent cheques for each year on the first day of each year.

4. SECURITY DEPOSIT

4.1 The Landlord acknowledges receipt of \$ 30,916.14 plus GST of \$

2,164.13 totaling \$33,080.27 from the Tenant, \$14,862.50 plus GST of which shall be applied towards payment of the rent for the 1st day of March, 2004 and the remainder shall be held by the Landlord, without liability for interest, as security for the faithful performance by the Tenant of all the terms, covenants and conditions contained herein. If during the term any payment by the Tenant is overdue then the Landlord may apply any portion of the security deposit toward such overdue payment and if any portion of the security deposit is not so applied then it shall be applied toward payment of the rent for the last one (1) month of the term. If all or any portion of the security deposit is applied toward an overdue payment then the Tenant will forthwith remit to the Landlord a sum sufficient to restore the security deposit to the original sum deposited,

5. USE OF THE DEMISED PREMISES

5.1 The Tenant shall use the demised premises for general office purposes and for no other purpose. The Tenant covenants and agrees that it will commence to carry on its business on the commencement date of the lease specified in paragraph 2.1 hereof and will carry on its business in the demised premises continuously during the term of this Lease.

6. TENANT'S COVENANTS

The Tenant covenants with the Landlord

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6.1 To pay rent and to pay all sums payable herein as additional rent, without any abatement, set-off, compensation or deduction whatsoever.

6.2 To pay all charges for the installation of telephone and other communications and office equipment and all charges for the maintenance thereof and relamping of lighting fixtures within the demised premises.

6.3 To pay all rates and charges for gas, electric light and/or power, fuel, telephone service and other utilities supplied to or used by the Tenant in respect of the demised premises.

6.4 To take good and reasonable care of the demised premises and of the improvements, fixtures and equipment now or hereafter located thereon and therein and of every part thereof, and at its sole cost and expense to manage, operate, maintain and keep them in good order, repair and condition; and to promptly make all required or necessary repairs and replacements thereof, reasonable wear and tear excepted, and to keep and leave all brass, copper or other metals and all windows in, on or attached to the demised premises cleaned and polished. All repairs and replacements shall be of a quality and class at least equal to the original and shall become the property of the Landlord absolutely and a part of the demised premises.

6.5 That the Landlord and its agents may at all reasonable times upon giving reasonable notice enter the demised premises and view the state of repair, and the Tenant shall within thirty (30) days after the receipt of written notice thereof commence and diligently proceed to make such repairs and replacements as the Landlord may reasonably require and in the event of the Tenant's failure or neglect to do so within the time herein specified the Landlord and its agents may enter the demised premises and at the Tenant's expense perform and carry out such repairs or replacements and the Landlord in so doing shall not be liable for any inconvenience, disturbance or loss of business.

6.6 That the Tenant will leave the premises in good repair, in accordance with the standards set forth in paragraph 6.4 herein.

6.7 To restore forthwith at the Tenant's expense from time to time any glass on the demised premises broken or damaged as a result of any cause save for the negligence of the Landlord, its servants or agents.

6.8 Not to do or suffer any waste or damage, disfiguration or injury to the demised premises or the fixtures and equipment therein nor to permit or suffer any overloading of the floors thereof; and not to use or permit the use of any part of the demised premises for any unlawful purpose or for any dangerous, noxious or offensive trade or business and not to permit, cause or maintain any nuisance or interference with the comfort of any of the occupants of the building.

6.9 Not to exhibit signs of any nature on walls, doors or windows nor to install any window coverings without the prior written approval of the Landlord, such approval not to be unreasonably withheld. If any sign, advertisement, or notice is inscribed, painted or affixed by the Tenant on or to any part of the building whatsoever without the consent of the Landlord in writing having first been obtained, then the Landlord or its agents shall be at

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liberty to enter and pull down and take away any such sign, advertisement or notice at the expense of the Tenant. Any signs, which shall be in the complete control of the Landlord, on the interior or exterior of the building, shall be arranged for the Tenant by the Landlord or its agents; the cost shall be charged to the Tenant and shall be payable and recoverable as rent.

6.10 Not to do or permit anything to be done whereby any policy of insurance on the building or any part thereof may become void or voidable or whereby the premium thereon may be increased. In addition to any other rights under this Lease the Landlord may, if the tenant does or permits anything to be done whereby the premium for any insurance policy in respect of the building is

Increased, require the Tenant to pay to the Landlord an amount equal to the whole of such increase.

6.11 Not in any circumstances to assign or transfer this Lease or the term of any portion thereof or let or sublet or grant any license for occupation in respect of all or any part of the demised premises without the written consent of the Landlord first being had and obtained, which consent may not be unreasonably withheld, provided that such assignment, transfer, subletting or granting of license with the Landlord's consent shall not affect the obligation of the Tenant to perform the covenants contained in this Lease. If the Tenant is a private corporation and is not a reporting corporation and if by the sale or other disposition of its securities the control or beneficial ownership of such Corporation is changed at any time after the execution of this Lease, or during the term hereof, or during the term of any renewal hereof, if any, without the Landlord's prior written consent first being had, the Landlord may, at its option, cancel this Lease and the term hereby granted upon the giving of thirty (30) days' notice to the Tenant of its intention to cancel this Lease and the term shall thereupon be cancelled.

6.12 To keep the demised premises free of rubbish and debris at all times and to provide proper receptacles for waste and rubbish.

6.13 To abide by and comply and use reasonable efforts to cause its employees to abide and comply with all laws, rules and regulations of every municipal or other authority which in any manner relate to or affect the business or profession of the Tenant or the use of the demised premises by the Tenant and to save harmless the Landlord from all costs, charges or damages to which the Landlord may be put or suffer by reason of the breach by the Tenant of any such law, rule or regulation.

6.14 That the Landlord or its agents may at any time enter upon the demised premises for the purpose of examining them, or for the making of any repairs to the premises or alterations, improvements or additions to the building of which the same form a part, which the Landlord shall deem necessary or desirable.

6.15 To permit the Landlord or its agents to show the demised premises at any reasonable time upon giving reasonable notice to any prospective purchaser or purchasers of the demised premises or any lands of which the demised premises form a part or, within the six (6) months immediately preceding the expiry of this Lease, any prospective tenant, and in either case to allow the exhibiting of the usual for sale or leasing notices on the exterior of the demised premises.

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6.16 Notwithstanding any other provisions of this Lease, to indemnify and save harmless the Landlord from any and all liabilities, damages, costs, claims, suits or actions arising out of:

- (a) Any breach, violation or non-performance of any covenants, condition or agreements in this Lease set forth and contained on the part of the Tenant to be fulfilled, kept, observed and performed;
- (b) Any damage to property occasioned by the Tenant's use and occupation of the demised premises except where such damage is caused by an act or default of the Landlord or its agents;
- (c) Any injury to a person or persons, including death resulting at any time therefrom, occurring in or about the demised premises.

6.17 To take out and keep in full force and effect throughout the term and during such other time as the Tenant occupies the demised premises or any part thereof:

- (a) Comprehensive liability insurance against claims for personal injury, death or property damage or loss upon, in or about the demised premises or otherwise howsoever arising out of the operations of the Tenant or any person conducting business from the demised premises, to the combined limit as may be reasonably required by the Landlord from time to time but, in any case, of not less than \$3,000,000.00 in respect of any one occurrence concerning property damage;
- (b) The policy of insurance required of the Tenant as aforesaid shall name the Landlord and any persons or corporations designated by the Landlord as additional named insureds as their interest may appear and, as appropriate, a cross-liability and/or severability of interest clause protecting the Landlord against claims by the Tenant as if the Landlord were separately insured and protecting the Tenant against claims by the Landlord as if the Tenant were separately insured as well as a clause that the insurer will not cancel or change or refuse to renew the insurance without first giving the Landlord thirty (30) days' prior written notice. All such policies will be with insurers acceptable to the Landlord and in a form satisfactory to the Landlord and the Tenant will deliver to the Landlord a copy of all such policies or certificates of such insurance.

6.18 And will not bring upon the demised premises or the building or any part thereof any machinery, equipment, article or thing that by reason of the weight, size or use might damage any floor in the demised premises or the building and that if any floor in the demised premises or the building and that if any damage is caused to the demised premises or to the building by any machinery, equipment, article or thing, or by overloading or by any act, neglect, misuse on the part of the Tenant or any of its servants, agents or employees or any person having business with the Landlord, the Tenant shall

forthwith repair such damage or pay the cost of repair to the Landlord.

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6.19 And will comply promptly at his own expense with all applicable laws, ordinances, regulations, requirements of any and all Federal, Provincial, Municipal and other authorities, or Association of Fire Insurance Underwriters or Agents and all notices in pursuance of same whether served upon the Landlord or the Tenant, and will indemnify and save harmless the Landlord from and against any and all manner of actions or causes of action, damage, loss, costs or expenses, which he may sustain, incur or be put to by reason of any neglect of same or noncompliance therewith or by reason of any defect, deficiency, disrepair, depreciation, damage or change in or to the premises, or any injury or damage to any person or to any goods and chattels contained in, upon or about the premises, resulting from the Tenant's use and occupancy thereof.

6.20 At the termination of this Lease, whether by effluxion of time or otherwise, the Tenant shall vacate and deliver up possession of the Premises in the same condition as the Premises were in upon delivery of possession to the Tenant and shall surrender all keys to the Premises to the Landlord at the place then fixed for payment of rent and shall inform the Landlord of all combinations on locks, safes and vaults, iv any, in the Premises.

- (a) And so long as the Tenant is not in default hereunder at the expiration of the Term, the Tenant shall then have the right to remove its trade fixtures.
- (b) If the Tenant fails to remove its trade fixtures and restore the Premises as aforesaid, all such trade fixtures shall become the property of the Landlord.
- (c) If the Tenant, after receipt of a notice from the Landlord fails to promptly remove any trade fixtures, furnishing, alterations, additions, improvements and fixtures in accordance with such notice, then the Landlord may enter into the Premises and remove therefrom all or par of such trade fixtures, furnishings, alterations, additions, improvements and fixtures without any liability and at the expense of the Tenant, which expense shall forthwith be paid by the Tenant to the Landlord.

7. LANDLORD'S COVENANTS

The Landlord covenants with the Tenant:

7.1 If the Tenant pays the rent and additional rent hereby reserved, and performs the covenants on its part contained herein, the Tenant shall and may peaceably possess and enjoy the demised premises for the term hereby granted, without any interruption or disturbance from the Landlord or any other

persons lawfully claiming by, from, through or under the Landlord, subject, nevertheless, to the terms, covenants and conditions of this Lease.

7.2 To pay or cause to be paid all taxes, rates and assessments now or hereafter levied, rated or assessed against the demised premises or the lands of which they form a part and improvements thereto, including without limiting the generality of foregoing, water and sewer rates and real property taxes, but this paragraph 7.2 does not alter any obligations of the Tenant under any provisions of Article 12.

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7.3 To provide access to the demised premises for the Tenant, its employees and agents, and all other persons lawfully requiring communication with it during normal business hours and at other times subject to each security and control measures as the Landlord may from time to time institute.

7.4 To keeping good and reasonable state of repair:

- (a) the building (other than the demised premises and premises of other tenants) including the foundation, roof, exterior walls including glass portions thereof, the elevators, entrances, stairways, corridors, lobbies and washrooms from time to time provided for use in common by the Tenant and other tenants of the building and the systems provided for bringing utilities to the demised premises; and
- (b) the structural elements of the demised premises.

The cost of such repairs, except structural repairs, shall be borne by the Tenant as provided in Article 12 hereof.

7.5 To insure the building to its full insurable replacement value against loss or damage by fire. The expense of such insurance shall be borne as provided in paragraphs 12.1 and 12.2 hereof. To the extent that any loss or damage to the building is covered by insurance maintained by the Landlord hereunder, the Landlord releases the Tenant from any and all liability for such loss or damage whether or not the same is caused by or contributed to by or through the negligence of the Tenant or its servants and agents.

8. ALTERATIONS AND INSTALLATIONS

8.1 The Tenant shall make no alterations, installations, removals, additions or improvements in or about the demised premises without the Landlord's prior written consent, such consent not to be unreasonably withheld, and in the event of such consent the Tenant shall have such work performed at the Tenant's sole expense by contractors or tradesmen or mechanics and at such times and in such manner as may be approved in writing by the Landlord.

8.2 The Tenant shall and does hereby indemnify and save the Landlord harmless from and against claims which might arise pursuant to the Builders Lien Act of British Columbia as it may from time to time be amended in respect of any materials or services supplied in respect of the demised premises at the Tenant's request and the Tenant shall forthwith remove any builders liens placed against the lands of which the demised premises is a part.

8.3 Except as provided herein, all improvements, installations, alterations, additions, partitions, build in cabinet-work, wall to wall carpeting and fixtures, whether placed there by the Tenant or the Landlord, shall at the expirations or earlier termination of this Lease become the Landlord's property without compensation therefore to the Tenant and shall not be removed from the premises by the Tenant at any time. All articles of personal property and all furniture, machinery and equipment, owned or installed by Tenant at the expense of the Tenant in the demised premises shall remain the property of the Tenant and may be removed by the Tenant at its expense; provided that the Tenant shall repair any damage to the demised premises or the building

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in which the demised premises are located caused by the aforesaid removal. If the Tenant does not remove its property forthwith after written demand by the Landlord, such property shall if the Landlord elects be deemed to become the Landlord's property or the Landlord may remove the same at the expense of the Tenant, the cost of such removal to be paid by the Tenant forthwith to be Landlord on written demand, the Landlord not to be responsible for any loss or damage to such property because of the removal.

9. LIABILITY FOR PROPERTY DAMAGE AND/OR PERSONAL INJURY

9.1 The Landlord shall not be responsible for any damage which may be caused, nor shall the Tenant be entitled to claim any diminution of rent or other compensation, for stoppage of any heating apparatus or any air conditioning apparatus or any electric light or water service, or any of the engines, boilers or machinery appertaining thereto, but in such case the Landlord shall use its best efforts to recommence any such operations as may have been affected and the Landlord shall not be liable for any damage or loss which may be caused to the Tenant or to the employees of the Tenant as a result of such stoppages. The Landlord shall not be liable for any damage in or upon the demised premises, arising from any reason or cause whatever, or for any personal injury including death sustained by the Tenant, its officers or employees, or other persons, or for any property loss, howsoever occurring, and the Tenant shall have no right to any diminution of rent in any of such cases; and, without restricting the generality of the foregoing, the Landlord shall not be liable for any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam gas, electricity, water, rain or snow or leaks from any part of the building or from pipes, appliances or plumbing works or

from the roof, street or sub-surface, or from any other place, or by dampness, or for any injury or damage by any cause of whatsoever nature, provided such injury or damage is not caused by the negligence of the Landlord or its servants or agents.

9.2 The Tenant shall reimburse the Landlord for all expenses, damages, losses or fines incurred or suffered by the Landlord for any reason of any breach, violation or non-performance by the Tenant of any covenant or provision of this Lease or by reason of damage to persons or property caused by the Tenant, its servants or agents.

9.3 The Tenant shall give the Landlord immediate notice in case of fire or accident in the demised premises or in the building of which the demised premises forms a part.

10. DAMAGE TO OR DESTRUCTION OF THE DEMISED PREMISES

10.1 Should the demised premises or the building containing them be damaged by fire or other casualty so as to render the premises partially or wholly unfit for occupancy:

- (a) If the damage cannot reasonably be repaired within one hundred twenty (120) days after the date thereof, either party may terminate this lease as of the said date by notice to the other given within thirty (30) days after such damage, and in that case the Tenant shall immediately surrender the demised premises to the Landlord and shall pay rent accrued to the

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date on which the said damage occurred but shall not be entitled to any damages or compensation;

- (b) If the damage can reasonably be repaired within one hundred twenty (120) days after the date thereof or if neither the Tenant nor the Landlord shall have given notice of termination pursuant to the provisions of subparagraph (a) the Landlord shall forthwith commence and carry out with due diligence the repair thereof, and this Lease shall continue in full force and effect save that the rent hereby reserved shall abate proportionately, having regard to such part of the demised premises as has been rendered unfit for occupancy, until the repairs have been completed; provided that there shall be no abatement of rent for any time required for the replacement or repair of any time required for the replacement or repair of any property of the Tenant.
- (c) If there is a dispute between the parties as to whether the

damage can reasonably be repaired within the said period of one hundred twenty (120) days the certificate of a professional engineer or architect agreed upon by both parties as to whether or not the said damage can be reasonably repaired within a period of one hundred twenty (120) days from the commencement of repairs shall be binding on both the Landlord and Tenant. If the Landlord and Tenant are unable to agree upon such engineer or architect within thirty (30) days after the date of such damage, the question which otherwise would be the subject of such certificate shall be settled by arbitration by a single arbitrator if the parties can agree on one or by three arbiters otherwise and subject to the provisions of the Commercial Arbitration Act of British Columbia. -----

11. EXPROPRIATION

11.1 If the demised premises are acquired or condemned by any authority having the power for such acquisition or condemnation for any public or quasi-public use or purpose then and in that event the term of this Lease shall cease from the date of entry by such authority. If only a portion of the demised premises are so acquired or condemned, this Lease shall cease and terminate at the Landlord's option and if such option is not exercised by the Landlord an equitable adjustment of rent payable by the Tenant for the remaining portion of the demised premises shall be made. If only a portion of the demised premises is expropriated so that the Tenant is no longer able to carry on its business in the demised premises remaining, this Lease shall cease and terminate at the option of the Tenant. In either event, however, and whether all or only a portion of the demised premises are so acquired or condemned, nothing herein contained shall prevent the Landlord or the Tenant or both from recovering damages from such authority for the value of their respective interests or for such other damages and expenses allowed by law.

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12. OPERATING EXPENSES AND ADDITIONAL RENT

12.1 The term operating expenses as used herein shall mean and include all expenses incurred and payable by the Landlord in the operation, maintenance, repair and management of the lands being expenses which are ordinarily chargeable against income in accordance with good accounting practice and without restricting the generality of the foregoing shall include:

- (a) All taxes, rates and assessments, whether general or special,

levied or assessed for municipal, school or other purposes or levied or assessed by any lawful government authority for any purposes with respect to the said lands and including all sales taxes on rents or other taxes imposed on the Landlord in respect of the rents payable to the Landlord by tenants of the building or in respect of the rental of space in the building to quote tenants but excluding those taxes and rates referred to in paragraph 12.3;

- (b) Electric power and lighting expenses, other than those referred to in paragraph 6.2 and 6.3 hereof;
- (c) Salaries and wages (including employer benefits and workers' compensation) and the cost of independent service contracts incurred in the cleaning, maintenance, management and operation of the building and grounds;
- (d) All expenses including administration, management, audit and miscellaneous general expenses related to the lands and building, but excluding debt interest, debt repayment and depreciation charges;
- (e) All charges incurred as a result of the Landlord obtaining insurance against loss or damage by fire or other casualties and against loss of rentals;
- (f) Expenses incurred in loaning and repainting the exterior of the building or the common area of the building;
- (g) Expenses incurred in keeping free of litter, dirt, snow and ice the sidewalks adjacent to the building;
- (h) All repairs performed in accordance with paragraph 7.4 herein, except for structural repairs.

12.2 The Tenant shall pay as additional rent his proportionate share of the operating expenses for each calendar year, such share being that proportion of the operating expenses which the area of the demised premises bears to the rentable area (excluding parking) of the building; PROVIDED THAT for the years in which the term commences and terminates a proportionate adjustment shall be made according to the proportion of the year included in the term.

12.3 The Tenant shall pay as additional rent any and all license fees and taxes imposed in connection with the occupancy of the demised premises, or with the particular business of the Tenant, or in connection with any form of

equipment used by the Tenant In the demised premises or brought onto the demised premises by or on behalf of the Tenant.

12.4 The Tenant shall pay as additional rent any and all additional costs and expenses of the landlord which may arise in respect of the use by the Tenant of the demised premises for business hours that do not coincide with normal business hours for the building generally or that may arise in respect of extra heating or air conditioning, electricity and other services required to be provided to the Tenant as a result of its activities over and above those normally provided to tenants of the building or outside of normal business hours.

12.5 Any amount payable by the Tenant under this Article 12 shall be deemed to be rent and shall be collectible and be paid as additional rent within thirty (30) days after demand by the Landlord. The Landlord may estimate for any calendar year or fiscal year of the Landlord the amount payable by the Tenant and the Tenant shall upon demand pay to the Landlord on the 1st day of each month, one twelfth (1/12) of the Landlord's estimate. The Landlord shall then account to the Tenant for such amounts within two (2) months after the end of such calendar of fiscal year.

12.6 Notwithstanding the provisions of paragraph 12.6 and with respect to the Tenant's proportionate share of realty, school and local improvement taxes, the Landlord may at its option estimate the amount of such taxes one year before the date upon which the said taxes become due and the Tenant shall on demand pay its proportionate share of such estimated taxes in equal monthly installments on the first day of each month as additional rent during the year preceding such due date, PROVIDED THAT any overpayment shall be rebated by the Landlord and any deficiency shall be paid to the Landlord once the actual taxes are known. A demand pursuant to this paragraph shall preclude the Landlord from including the amount demanded in any amount demanded under paragraph 12.6.

12.7 In the event of a dispute as to any amount payable under this Article 12, the certificate of a Chartered Accountant selected in the following manner shall be conclusive and binding upon the Landlord and Tenant. Any party wishing to dispute any amount payable or alleged to be payable under this paragraph shall nominate a Chartered Accountant by notice to the other party. If the Parties cannot agree to the appointment of the nominated Chartered Accountant within ten (10) days of such notice then the Landlord shall have the right to appoint an independent Chartered Accountant to make the determination contemplated by this paragraph and the decision of such Chartered Accountant so appointed shall be final. The fee of the Chartered Accountant shall be paid equally by the Landlord and the Tenant.

13. DEFAULT

13.1 The Tenant further covenants with the Landlord that if:

- (a) Any payments or rent, or additional rent as herein described, or any part thereof, are not paid when they become due;

- (b) The Tenant violates any covenant, agreement or stipulation herein contained on its part to be kept, performed or observed and any such default on the part or the Tenant shall continue

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for seven (7) days after written notice thereof to the Tenant;
or

- (c) In case the demised premises are vacated or become vacated or remain unoccupied for seven (7) days;

then and in any such case the Landlord in addition to any other remedy now or hereafter provided by law may at its option cancel and annul this Lease forthwith and re-enter and take possession immediately by force if necessary without any previous notice of intention to re-enter and may remove all persons and property therefrom and may use such force and assistance in making such removal as the Landlord may deem advisable to recover at once full and exclusive possession of the demised premises and such re-entry shall not operate as a waiver or satisfaction in whole or in part of any covenant or agreement on the Tenant's part to be performed.

13.2 if the Tenant fails to perform any of the covenants or obligations of the Tenant under or in respect of this Lease, the Landlord may from time to time, in its discretion, and in addition to and without prejudice to any other rights it may have as a result of such failure, perform or cause to be performed such covenants or obligations or any part thereof and for such purpose may do such things as may be requisite, including without limiting the generality of foregoing, entering upon the demised premises and doing such things upon or in respect of the demised premises or any part thereof as the landlord may deem necessary or requisite and all reasonable expenses incurred and reasonable expenditures made by or on behalf of the Landlord under this paragraph shall be forthwith due and be paid by the Tenant to the Landlord as additional rent.

13.3 If the term hereby granted or any of the goods or chattels of the Tenant are at any time seized or taken in execution or attachment by any creditor of the Tenant or if the Tenant makes any assignment for the benefit of creditors or becoming bankrupt or insolvent takes the benefit of any Act for bankrupt or insolvent debtors the then current month's rent together with the rent owing for the next three months shall immediately become due and payable and it shall be lawful for the Landlord at any time thereafter to re-enter into or upon the demised premises or any part thereof in the name of the whole and the same to have again, repossess and enjoy as of its former estate anything herein contained to the contrary notwithstanding.

14. DISTRESS

14.1 Whensoever the Landlord is entitled to levy distress against the goods and chattels of the Tenant it may use such force as it may deem necessary for the purpose and for gaining admission to the demised premises without any liability whatsoever including, without limitation, liability for any loss or damage occasioned thereby and the Tenant hereby expressly releases the Landlord from all actions, proceedings, claims or demands whatsoever for or on account or in respect of any such forcible entry or any loss or damage sustained by the Tenant in connection therewith.

15. LANDLORD'S EXPENSES ENFORCING LEASE

15.1 In the event that it is necessary for the Landlord to retain the services of a solicitor or any other proper person for the purpose of assisting

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the Landlord in enforcing any of its rights hereunder in the event of default on the part of the Tenant, the Landlord shall be entitled to collect from the Tenant the reasonable cost of all such services on a solicitor and his own client basis as if the same were rent reserved and in arrears hereunder.

16. WAIVER

16.1 The failure of either party to insist upon strict performance of any covenant or condition contained in this Lease or in any rule or regulation attached hereto shall not be construed as a waiver or relinquishment for the future of any such covenant, condition, rule or regulation. The acceptance of any rent or the performance of any obligation hereunder by a person other than the Tenant shall not be construed as an admission by the Landlord of any right, title or interest of such person as a sub-tenant, assignee, transferee or otherwise in the place and stead of the Tenant.

17. HOLD OVER

17.1 If the Tenant holds over after the expiration of the term granted and the Landlord accepts rent, the new tenancy hereby created shall be deemed a monthly tenancy and not a yearly tenancy and shall be subject to the covenants and conditions contained herein insofar as they are applicable to a tenancy from month to month.

18. RULE AND REGULATIONS

18.1 The Tenant and its servants, employees and agents shall observe faithfully and comply strictly with such reasonable rules and regulations as the Landlord may from time to time adopt. Written notice of any rules and regulations shall be given to the Tenant as set out in Schedule B. Nothing contained in this Lease shall be construed to impose upon the Landlord any duty or obligation to enforce the rules and regulations or the terms, covenants or

conditions in any other lease against any other Tenant of any building of which the demised premises form a part, and the Landlord shall not be liable to the Tenant for violation of the same by any other Tenant or its servants, employees, agents, visitors or licensees.

19. INABILITY TO PERFORM

19.1 The Landlord does not warrant that any service or facility provided by it hereunder will be free from Interruptions caused or required by maintenance, repairs, renewals, modifications, strikes, riots, insurrections, labour controversies, accidents, fuel shortages, Government intervention, force majeure, acts of God or other cause or causes. No such interruption shall be deemed an eviction or disturbance of the Tenant's enjoyment of the demised premises nor render the Landlord liable in damages to the Tenant nor relieve the Tenant from its obligations under this Lease.

20. NOTICES

20.1 Any notice, demand or other communication required or contemplated by any provision of this Lease shall be given in writing, and if to the Landlord, either delivered to or mailed by prepaid registered mail addressed to the Landlord as follows:

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Gastown Investment 21 Ltd.
#600 - 21 Water Street
Vancouver, British Columbia
V6B 1A1

and if to the Tenant, either delivered to the demised premises or mailed by prepaid registered mail addressed to the Tenant at the demised premises. Every such notice shall be deemed to have been given when delivered, or, if mailed as aforesaid, upon the third business day after the day of mailing thereof in Canada provided that if mailed, should there be between the time of mailing and the actual receipt of the notice, a mail strike, slowdown or other labour dispute which might affect delivery of such notice, then such notice shall only be effective if actually delivered. The Landlord may from time to time by notice in writing to the Tenant designate another address in Canada as the address to which notices are to be delivered or mailed to it.

21. INTERPRETATION

21.1 Where required, the singular number shall be deemed to include the plural, and the neuter gender the masculine or feminine. Where there is more than one Tenant, they shall be jointly and severally bound to the fulfillment of their obligations hereunder.

22.1 Registration of Lease. The Landlord shall not be obliged to execute or deliver this Lease in form registrable under the Land Title Act and the tenant shall not register this Lease against the title to the lands.

22.2 Estoppel Certificate Clause. The Tenant shall from time to time at the request of the Landlord, execute and deliver to any proposed purchaser or proposed or existing mortgagee of the demised premises a certificate acknowledging the following:

- (a) That the Tenant is in possession of the demised premises;
- (b) That this Lease is in full force and effect and unamended, or if the same has been amended specifying such amendments;
- (c) That the Landlord is not currently in default under any term, condition or covenant required to be performed by the Landlord hereunder, or if the Landlord is in default under one or more of such terms, conditions or covenants specifying the nature of each such default;
- (d) The date of which rents hereunder have been paid;
- (e) The amount of any deposit hereunder;
- (f) That there is no right of set-off against any rents due hereunder.

22.3 Attornment and Non Disturbance Clause. The Tenant shall, if requested to do so by the Landlord, agree with any mortgagee of the whole or any

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portion of the lands to attorn to and become tenant of such mortgagee if the mortgagee shall become a mortgagee in possession, if such mortgagee shall agree that so long as the Tenant pays the rent and observes and performs its covenants and provisos herein contained on its part to be performed, the Tenant shall be entitled to hold, occupy and enjoy the demised premises, subject to any rights the mortgagee may have as a lessor, free from any interference by the mortgagee or any person claiming by or through the mortgagee.

22.4 Headings. The headings in this Lease form no part of this Lease and shall be deemed to have been inserted for convenience of reference only.

22.5 Lease Subordinate Charge Against Land. If required by the holder of any charge or charges from time to time created by the Landlord by Mortgage or Charge on the lands, this Lease shall be deemed to be subordinate to such

charge or charges, and the Tenant shall promptly at any time as required by the Landlord execute all documents and give such further assurances as may be reasonably required to postpone its rights and privileges to the holder of any Charge or Mortgage provided that such Mortgage or Charge shall permit the Tenant to continue in quiet possession of the demised premises in accordance with the terms and conditions of this Lease so long as the Tenant is not in default hereunder, whether such Mortgage or Charge is in good standing or not.

22.6 Triple Net Lease. Subject to the terms herein, the parties agree that it is their purpose, intent and agreement that rent aforementioned shall be absolutely net to the Landlord so that this Lease shall yield net to the landlord the amount specified in paragraph 3.1 hereof free of any charges, assessments, impositions or deductions of any kind and without abatement, deductions or set-off.

22.7 Relief of Landlord on Sale. If the Landlord sells the Landlord's interest in the lands and building the Landlord shall be released from all obligations, responsibilities and liabilities under this lease to the extent that the purchaser of the Landlord's interest assumes them from the Landlord.

22.8 Additional Covenants. Any additional covenants, conditions or agreements set forth in writing and attached hereto whether at the commencement of the term or at any subsequent time and signed or initialed by the parties hereto shall be read and construed together with and as part of this lease; PROVIDED ALWAYS THAT when they are at variance with any written paragraph in this Lease such additional covenants, conditions, and agreements shall be deemed to supersede such paragraph.

22.9 Whole Agreement. The Tenant agrees that demised premises are leased by the Tenant without any representations or warranties other than as contained in this Lease.

22.10 Option to Renew. The Landlord agrees that if the Tenant duly and regularly pays the rent hereunder and performs all the covenants, provisos and agreements herein contained and on the part of the Tenant to be paid and performed, the Landlord will upon the written request of the Tenant made not less than six (6) months prior to the expiration of the term, and at the cost of the Tenant, grant to the Tenant a renewal of this Lease for a further term of THREE (3) years at a basic rent to be agreed upon based on the fair market rental for premise of similar size, quality and location at the time of renewal

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(but which shall not be less than the basic monthly rental of the last month of the term plus TEN percent (10%) or failing agreement, at a rate to be determined on the same basis as set out above by reference to one arbitrator if the parties can agree in selecting one and failing that to be determined by the decision of three arbitrators or a majority of them, with one to be named by the Landlord

and one by the Tenant, not more than fourteen (14) days after the giving of notice by the Landlord or Tenant requesting such arbitration and the two arbitrators as chosen shall within seven (7) days after the appointment of the two arbitrators select a third arbitrator, it being expressly agreed that:

- (a) The award of the arbitrator or arbitrators or a majority of them shall be made not later than twenty-one (21) days after the date of the appointment of the arbitrator or third arbitrator (as the case may be) so appointed hereunder.
- (b) The Landlord and Tenant shall each pay its own cost of the arbitration proceedings, provided that in the case of a single arbitrator the arbitrator's fee shall be paid equally between them and in the case of three arbitrators the fee of the third arbitrator shall be paid equally between them;
- (c) If either the Landlord or the Tenant neglects or refuses to name its arbitrator in the time hereinbefore limited or fails to proceed with the arbitration, the arbitrator named by the other of them shall determine the basic rent and decision of such arbitrator shall be final and binding on both the Landlord and Tenant;
- (d) Any arbitration hereunder shall be governed by the Commercial Arbitration Act of the Province of British Columbia.

Such renewal lease shall contain the same terms, provisos, covenants and agreements herein contained excluding this paragraph and except for the basic rent which shall be determined above.

22.11 Additional Termination Clause. In addition to any of the other rights and remedies of the Landlord under this Lease, the Landlord at its option may terminate this Lease upon giving the Tenant six (6) months notice in writing to vacate the lands for the reason that the Landlord intends to either:

- (a) demolish the entire building;
- (b) substantially renovate the building; or
- (c) strata title the building.

The Tenant shall upon receipt of the notice aforementioned vacate the lands on the first day of the sixth month of the notice period and this Lease shall terminate and the installments of rent and other moneys payable hereunder by the Tenant shall be apportioned and payable only up to the date of such vacating.

In addition to any other rights and remedies, the Landlord and Tenant will have the option to terminate this lease by giving ninety (90) days notice in writing prior to the end of the 1st year of the said term to the other party.

23. INDEMNITY

The Indemnitor, as a separate and distinct agreement and in consideration of the Landlord entering into this Lease with the Tenant and other good and valuable consideration (the receipt and sufficiency of which are hereby acknowledged), covenants and agrees with the Landlord as follows:

1. this indemnity is absolute, unconditional and irrevocable;
2. the Tenant will duly keep, observe and perform all of its covenants and agreements under this lease (including the payment of rent and all other amounts from time to time payable under this Lease);
3. if any default is made by the Tenant under this Lease, the Indemnitor shall on demand of the Landlord forthwith remedy such default;
4. the Landlord shall not be bound or required to proceed against the Tenant or to have recourse to or exhaust any security from time to time held by it for the performance of such covenants or agreements or to pursue any other remedy whatsoever which may be available to it, before proceeding against the Indemnitor;
5. the Indemnitor shall indemnify and save harmless the Landlord with respect to all losses, costs, expenses, claims, liabilities and damages that may be suffered or incurred by the Landlord by reason of or relating to, directly or indirectly, any default of the Tenant under this Lease;
6. the Indemnitor is jointly and severally bound with the Tenant to the Landlord to keep, observe and perform all covenants and agreements of the Tenant under this Lease;
7. the obligations of the Indemnitor under this clause shall be in no way released, discharged, or reduced or otherwise affected by:
 - a. modifications, releases or discharges granted to the Tenant in respect of its obligations to keep, observe and perform its covenants and agreements hereunder;
 - b. any neglect, delay or forbearance of the Landlord in demanding, requiring or enforcing the keeping, observance or performance by the Tenant of any of its covenants or agreements under this Lease or by the Indemnitor of any obligations under this clause;

- c. granting any extension of time, waivers or indulgences;
- d. any assignment or subleasing by the Tenant or any trustee in bankruptcy, receiver or other successor or any consent of the Landlord to any assignment or subleasing;
- e. bankruptcy, insolvency or dissolution of the Tenant;

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- f. any other event or occurrence which would have the affect at law of terminating or rendering unenforceable any covenants or agreements of the Tenant;
 - g. any agreements or other dealings between the Landlord and the Tenant having the effect of amending or altering the Lease or the obligations of the Tenant hereunder.
 - h. any want of notice by the Landlord to the Indemnitor of any default of the Tenant;
 - i. any re-entry onto the Leased Premises or termination of this Lease; or
 - j. any other matter, thing, act or omission of the Landlord whatsoever.
8. the obligations of the Indemnitor under this clause shall extend to the Term and to any overholding by the Tenant thereafter and to any renewal or extension of the Term;
9. no proceeding under this clause and no recovery made as a result thereof will be a bar or defence to any further proceeding under this Clause;
10. the Indemnitor waives any right to receive notices of any default of the tenant;
11. the Indemnity is bound by all the terms and provisions of this lease; and
12. this Indemnity shall enure to the benefit of and be binding upon the Landlord and the Indemnitor and their respective heirs, executors, administrator's, successors and assigns.

THIS INDENTURE shall enure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators, successors and permitted assigns.

IN WITNESS WHEREOF the parties hereto have affixed their common seals in the presence of their offices duly authorized in that behalf, or have hereunto set their hands and seals, as the case may be, on the day and year first above written.

The Common Seal of GASTOWN INVESTMENT 21 LTD.
was hereunto affixed in the presence of:

C/S

____/s/ George Lee_____
George Lee

The Common Seal of VERIDICOM INTERNATIONAL
(CANADA) INC. was hereunto affixed in the presence of:

C/S

____/s/ Terry Laferte_____
Terry Laferte

____/s/ Paul Mann_____
Paul Mann

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SCHEDULE A

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SCHEDULE B

GENERAL BUILDING RULES & REGULATIONS

21 WATER STREET / 109 CARRAL STREET

ATTACHED TO AND FORMING PART OF THIS LEASE AGREEMENT

1. No Sign, advertisement, notice or other lettering shall be exhibited, inscribed, painted or affixed by the Tenant on any part of the outside of the Leased premises or the Building without the prior written consent of the Landlord. In the event of the violation of the foregoing by the Tenant, the Landlord may remove same without any liability, and may charge the expense of such removal to the Tenant. Provided however that upon the termination of the Lease to which these rules and regulations are attached, the Tenant will at the request of the Landlord remove any and all such signs and shall make good any damage occasioned by the installation and/or removal thereof.
2. The water and wash closets and other plumbing fixtures shall not be

used for purposes other than those for which they were construed, and no sweeping, rubbish, rags or other substances shall be thrown therein. All damages resulting from any misuse of the fixtures shall be borne by the Tenant; the servants, employees, agents, visitors or licensees of which shall have caused the same.

3. The Tenant shall not mark, paint, drill into or in any way deface any part of the Leased Premises or the Building. No showing, cutting or stringing of wires shall be permitted, except with the prior written consent of the Landlord and as the Landlord may direct, such consent not to be unreasonably withheld.
4. The Tenant and any of the Tenant's servants, employees, agents, visitors or licensees shall not, at any time, bring or keep on the Leased Premises any inflammable, combustible or explosive fluid, chemical or substance.
5. No loudspeaker, television, phonograph, radio or other device shall be used in the manner so as to be heard or seen as the case may be, outside the Leased premises without the prior consent of the Landlord.
6. The Normal Building Operating Hours are from 7:00 a.m. to 8:00 p.m. Monday to Friday, Statutory holidays excepted. The Landlord reserves the right to charge tenants an additional Electrical Levy Charge should the tenants use the premises extensively outside the Normal Building Operating Hours.
7. The Leased Premises shall be used exclusively for conducting the business of the tenant. The Leased Premises are not licensed nor can be used for overnight sleeping accommodations or as a place of habitation.
8. The Building will open to tenants and their clients during Normal Building Operating Hours. Outside of the Normal Building Operating Hours, the building will be locked and access is restricted to authorized personnel only.

CORPORATE IMAGE (16) AGREEMENT

This Agreement dated this 30th day of April 2004 is by and between Insignia Corporate Establishments (U.S.) Inc., hereinafter referred to as the "Provider." and VERIDICOM INTERNATIONAL hereinafter referred to as the "Client." The Intent of this Agreement is for office use with business address.

This Agreement shall commence on May 1, 2004 for a minimum six (6) month term. At the end of the initial six(6) month term, this Agreement will continue on a month-to-month basis and may be cancelled by the Client with thirty (30) days, one (1) calendar month, written notice. The Provider has the right to cancel this Agreement at any time should the Client be in default of the terms herein, or be found to be conducting its business outside the laws governed by the state of Washington. The Provider will allow thirty (30) days following the expiration of this Agreement for the Client to notify its associates of its new address. During that thirty (30) day period the Provider shall continue to hold the Client's mail for pickup.

Terms of this Agreement:

- o Monthly Rate: \$200.00 per month payable in advance on the first of each month. Interest on overdue accounts will be charged at the rate of 15% per annum.
- o Security Deposit: \$300.00. Deposit is refundable, less any outstanding amounts due to the Provider, sixty (60) days following the termination of this Agreement.
- o Access: During regular business hours, Monday through Friday, 8:00 a.m. to 5:00 p.m., except for statutory holidays.

Services provided under this Agreement:

- o Use of corporate address shown above
- o Mail and courier handling
- o One telephone number/line for incoming calls
- o Telephone answering, Monday through Friday, 8:00 a.m. to 5:00 p.m., except for statutory holidays

- o One voicemail box with 24-hour message access and retrieval
- o Use of fax number (206) 521-9317
- o Sixteen (16) hours per month, non-cumulative, use of a furnished meeting room or office on a pre-scheduled, space-available basis. Any

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usage over the monthly allowance shall be charged at a rate of \$15.00 per hour.

Other services provided will be charged at, but not limited to, the rates shown on the attached Schedule "A" Corporate Image Schedule of Fees.

Please enclose bank draft, certified check or copy of bank transfer for the amount shown on the attached Schedule "B" made payable to Insignia.

We hereby acknowledge that the terms of this Agreement are mutually acceptable.

/s/ Paul Mann	1/May/2004
-----	-----
Authorized Signature - Client	Date

/s/ [illegible]	5/1/04
-----	-----
Authorized Signature - Provider	Date

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VERIDICOM INTERNATIONAL, INC.
CODE OF ETHICS FOR PRINCIPAL
EXECUTIVE AND FINANCIAL OFFICERS

I. Introduction

This Code of Ethics (the "Code") applies to the principal executive officer, principal financial officer, principal accounting officer or controller, or others performing similar functions (each a "Principal Officer" and collectively, the "Principal Officers") of Veridicom International, Inc. (the "Company").

II. Compliance With Laws, Rules And Regulations

Our Principal Officers are required to comply with the laws, rules and regulations that govern the conduct of the Company's business and to report any suspected violations in accordance with the section below entitled "Compliance With Code Of Ethics."

III. Conflicts Of Interest

A conflict of interest occurs when private interests interfere in any way, or even appear to interfere, with the interests of the Company. Our Principal Officers are obligated to conduct the Company's business in an honest and ethical manner includes the ethical handling of actual or apparent conflicts of interest between personal and business relationships. Before making any investment, accepting any position or benefits, participating in any transaction or business arrangement or otherwise acting in a manner that creates or appears to create a conflict of interest, a Principal Officer must make full disclosure of all facts and circumstances to, and obtain the prior written approval of the Board of Directors.

IV. Periodic Reports Filed by the Company

Our Principal Officers have specific responsibilities with respect to the Company's financial reporting and public disclosures. The Principal Officers play a critical role in the Company's efforts to make full, fair, accurate, timely and understandable disclosures in the periodic reports it files with the Securities and Exchange Commission ("Periodic Reports"). Principal Officers shall endeavor in good faith to assist the Company in such efforts, including by:

- o Disclosing to the Board of Directors any significant deficiencies in the design or operation of the Company's internal controls impacting the collection and reporting of financial data and any fraud involving management or other employees who play a significant role in the Company's internal controls;

- o Recording and reporting information in an honest and accurate manner. Principal Officers must endeavor to ensure that the books, records, accounts and financial statements of the Company are recorded and kept in reasonable detail, in a manner that appropriately reflects the Company's transactions and in a manner that conforms both to applicable

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legal requirements and to the Company's system of internal controls. Unrecorded or "off the books" funds or assets are not to be maintained by the Company unless permitted by applicable law or regulation;

- o Cooperating with the Company's internal and independent auditors when asked to do so; and
- o Helping to develop, maintain and observe the Company's disclosure controls and procedures when preparing Periodic Reports in order to facilitate accurate and timely filings.

V. Compliance With Code Of Ethics

If a Principal Officer knows of or suspects a violation of applicable laws, rules or regulations or this Code of Ethics, he/she must immediately report that information to the Board of Directors. No one will be subject to retaliation because of a good faith report of a suspected violation.

Violations of this Code of Ethics may result in disciplinary action, up to and including discharge. The Board of Directors shall determine, or shall designate appropriate persons to determine, appropriate action in response to violations of this Code.

VI. Certain Procedures

Waivers of the Code. Any waiver of this Code may be made only by the Board of -----
Directors and must promptly be disclosed as required by law or stock exchange regulation.

Violations of the Code. Violations of the Code will subject Principal Officers -----
to possible disciplinary action, which could include being relieved of duties or termination of employment.

VII. No Rights Created

This Code is a statement of certain fundamental principles, policies and procedures that govern the Company's Principal Officers in the conduct of the Company's business. It is not intended to and does not create any rights in any employee, customer, client, supplier, competitor, stockholder or any other

person or entity.

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Subsidiaries

EsSTec, Inc., a Nevada corporation

Veridicom, Inc., a California corporation

Cavio Corporation, a Washington corporation

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Securities and Exchange Commission
Washington D.C.

We consent to the incorporation of our report dated August 22, 2003, with respect to the consolidated financial statements of Esstec, Inc. and Subsidiary for the year ended December 31, 2002, to be included in the Annual Report on Form 10-KSB for the year ended December 31, 2003.

/s/ Kabani & Company, Inc.
CERTIFIED PUBLIC ACCOUNTANTS
Fountain Valley, California
May 17, 2004

CERTIFICATION

I, Paul Mann, the President of the registrant, certify that:

1. I have reviewed this annual report on Form 10-KSB of Veridicom International, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(e) and 15d-14(e)) for the registrant and we have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

31.1-1

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Paul Mann

Name: Paul Mann
Title: President (Principal Executive Officer)
May 18, 2004

31.1-2

CERTIFICATION

I, Bashir Jaffer, the Chief Financial Officer of the registrant, certify that:

1. I have reviewed this annual report on Form 10-KSB of Veridicom International, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14(e) and 15d-14(e)) for the registrant and we have:

- a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
- b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's

board of directors (or persons performing the equivalent functions):

31.2-1

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Bashir Jaffer

Name: Bashir Jaffer
Title: Chief Financial Officer (Principal
Financial Officer)
May 18, 2004

31.2-2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Veridicom International, Inc. (the "Company") on Form 10-KSB for the period ending December 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Paul Mann

Paul Mann
President (Principal Executive Officer)

/s/ Bashir Jaffer

Chief Financial Officer (Principal Financial Officer)

May 18, 2004

A signed original of this written statement required by Section 906 has been provided to Veridicom International, Inc. and will be retained by Veridicom International, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

32.1-1