Sure Trace Security Corporation
Consolidated
Financial Statements

December 31, 2004 and 2003

Consolidated Financial Statements
(Expressed in U.S. Dollars)

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Sure Trace Security Corporation
(UNAUDITED)
Consolidated Balance Sheet
(Expressed in US Dollars)

	December 31	
	2004	2003
Assets		
Current		
Cash	**$ 26,974**	$ 2,845
Receivables	**11,791**	35,345
	38,765	38,190
Capital assets	**-**	77,259
Loan receivable	**-**	-
Prepaid deposits	**-**	2,098
	$ 38,765	$ 117,547
Liabilities		
Current		
Accounts payable	**$ 874,625**	$ 750,078
Accrued liabilities	**780,071**	545,600
Obligation under capital lease	**12,879**	12,290
Due to related parties	**47,796**	36,975
Notes payable	**279,133**	276,480
Loan to former affiliate	**250,000**	-
Convertible debenture	**141,640**	-
	2,386,145	1,621,423
Obligation under capital lease	**4,298**	3,133
Total Liabilities	**2,390,443**	1,624,556
Stockholders' Deficiency		
Capital stock		
Authorized:		
500,000,000 common shares of $0.001 par value		
10,000,000 preferred shares of $0.001 par value		
Issued:		
125,460,294 common shares (2002 – 52,340,038)	**125,460**	52,340
Nil preferred shares (2003 – Nil)	**-**	-
Additional paid-in capital	**15,051,333**	8,943,549
	15,176,793	8,995,889
Deficit	**(17,205,945)**	(10,469,245)
Accumulated comprehensive deficit	**(322,526)**	(33,653)
	(2,351,678)	(1,507,009)
	$ 38,765	$ 117,547

* These financial statements and notes thereto present fairly, in all material respects, the financial position of the company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United States.

Sure Trace Security Corporation

(UNAUDITED)

Consolidated Statement of Operations

(Expressed in US Dollars)

	Year ended December 31	
	2004	2003
Sales	**$ 42,695**	$ 22,195
Cost of sales	**9,467**	18,530
Gross profit	**33,228**	3,665
Expenses		
Advertising	**9,460**	12,447
Bad debt	**190,708**	-
Depreciation and amortization	**19,671**	31,299
Consulting	**4,136,244**	1,768,865
Corporate finance fees	**293,144**	-
Debt settlement	**350,000**	-
Equipment rental	**10,515**	2,270
Finders fees	**35,051**	-
General and administrative	**149,050**	113,857
Goodwill write off	**-**	803,764
Interest expense and bank charges	**53,044**	37,449
Office	**86,912**	63,536
Professional fees	**193,582**	284,462
Promotion	**29,400**	211,628
Transportation	**20,077**	53,175
Travel	**269,455**	66,576
Wages and benefits	**803,734**	868,221
Total expenses	**6,650,047**	4,317,549
Operating Loss	**(6,616,819)**	(4,313,884)
Other income (loss)		
Write off fixed assets	**(59,881)**	-
Write off loan	**(60,000)**	
Net Loss for the Year	**(6,736,700)**	(4,313,884)
Net loss per share	**$ (0.08)**	$ (0.011)
Weighted average number of shares outstanding	**81,580,298**	38,935,744

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Sure Trace Security Corporation
(UNAUDITED)

Consolidated Statement of Cash Flows

(Expressed in US Dollars)

		Year ended December 31		
		2004		2003
Cash flows derived from (applied to)				
Operating				
Net loss	**$**	**(6,736,700)**	$	(4,313,884)
Depreciation and amortization		**19,671**		31,299
Bad debt		**190,708**		-
Compensation for options granted		**1,639,551**		682,606
Stock issued for services		**2,817,175**		1,237,815
Write off of goodwill		**-**		803,764
Changes in non-cash operating working capital				-
Accounts receivable		**23,554**		(27,271)
Accredited to convertible debenture		**4,657**		
Prepaid expenses		**2,099**		2,547
Accounts payable		**124,547**		400,635
Accrued liabilities		**234,471**		379,836
		(1,680,267)		(802,653)
Financing				
Capital stock issued for cash		**-**		241,552
Convertible debenture		**150,000**		-
Due to related parties		**10,821**		71,198
Capital lease obligations		**2,185**		(8,659)
Notes payable		**2,653**		(4,542)
Capital stock issued for options		**1,651,161**		548,500
		1,816,820		848,049
Investing				
Capital expenditures		**-**		(9,172)
Write off capital assets		**59,881**		-
Write off loan		**60,000**		
Cash acquired in acquisition (Note 3)		**-**		11,242
		119,881		2,070
Effect of exchange rate changes on cash		**(232,305)**		(44,621)
Net increase (decrease) in cash		**24,129**		2,845
Cash, beginning of period		**2,845**		-
Cash, end of period	**$**	**26,974**	$	2,845
Non-cash investing and financing activities:				
Preferred shares issued to acquire all of the issued and outstanding shares of Identex	**$**	**-**	$	801,000
Capital stock issued on the conversion of preferred shares		**-**		356,000
Capital assets acquired under capital lease obligations		**-**		24,218

* These financial statements and notes thereto present fairly, in all material respects, the financial position of the company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United State.

SURE TRACE SECURITY CORPORATION (UNAUDITED)

Consolidated Statements of Stockholders' Deficiency
For the Year ended December 31, 2004 and 2003
(Expressed in US Dollars)

	Common stock		Preferred stock		Additional Paid in Capital	Deficit Accumulated	Accumulated other compre-hensive income	Share Subscriptions	Total Stock-Holders' (deficiency)
	Shares	Amount	Shares	Amount					
Balance, December 31, 2002 (audited)	108,755,262	$ 108,755	1,000,000	$ 33,334	5,439,659	$ (6,155,361)	$	$ (97,332)	$ (670,945)
Preferred Stock issued for subsidiary			1,000,000	$ 801,000					$ 801,000
Cancellation of Series A Preferred Stock			(110,000)	$ (3,667)					
Exchange of Preferred Stock for Common Stock	356,000,000	$ 356,000	(1,890,000	$ (830,667)	478,334				
Reverse Share split at 15:1	(433,771,372)	$ (433,771)			$ 433,771				
Common Stock issued for cash	3,765,101	$ 3,765			$ 237,787				$ 241,552
Common stock issued for services	10,529,459	$ 10,529			$ 1,129,954			$ 97,332	$ 1,237,815
Options exercised	7,061,588	$ 7,062			$ 541,438				$ 548,500
Options granted					$ 682,606				$ 682,606
Translation adjustment							$ (33,653)		$ (33,653)
- net loss for the year to date					$	$ (4,313,884)			$ (4,313,549)
Comprehensive income (loss)					$ 8,943,549				
Balance, December 31, 2003 (audited)	52,340,038	$ 52,340	-	-		$ 10,469,245	$ (33,653)	$ -	$ (1,507,009)

* These financial statements and notes thereto present fairly, in all material respects, the financial position of the company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United State.

SURE TRACE SECURITY CORPORATION
(UNAUDITED)
Consolidated Statements of Stockholders' Deficiency
For the Year ended December 31, 2004 and 2003
(Expressed in US Dollars)

	Common stock		Preferred stock		Additional Paid in Capital	Deficit Accumulated	Accumulated other compre- hensive income	Share Subscriptions	Total Stock- Holders' (deficiency)
	Shares	Amount	Shares	Amount					
Balance, December 31, 2003 (audited)	52,340,038	$ 52,340	-	-	$ 8,943,549	$ 10,469,245	$ (33,653)	-	$ (1,507,009)
Shares issued for services	26,793,661	26,794			3,204,394				3,231,188
Options exercised	34,482,161	34,481			2,371,013				2,405,494
Debt Settlements	10,844,434	10,845			460,360				471,205
Issued as collateral for GSC Loan	1,000,000	1,000			59,000				60,000
Change in foreign currency translation							(288,873)		(288,873)
Equity component of convertible debenture					13,017				13,017
Translation adjustment									
- net loss for the year to date						(6,736,700)			(6,736,700)
Comprehensive income (loss)					$ 15,051,333				
Balance, December 31, 2004 (audited)	125,460,294	$ 125,460				$ (17,205,945)	$ (322,526)	-	$ (2,351,678)

* These financial statements and notes thereto present fairly, in all material respects, the financial position of the company and the results of its operations and cash flows for the periods presented, in conformity with accounting principles generally accepted in the United State.

1. Nature and Continuance of Operations

In November 1998, the Company changed its name to Watchout! Inc. from White Cloud Exploration, Inc. ("the Company"), its name from inception.

On August 31, 2000, the Company acquired all of the issued and outstanding shares of common stock of Cormax Business Solutions, Ltd. in exchange for the issuance of 25,100,000 shares of our common stock. For purposes of the transaction, the shares were valued at $.30 per share for a total consideration of $7,530,000. The transaction was subject to receipt of certain documentation, which was received by the Company on September 9, 2000.

On March 7, 2001, the Company filed an amendment to its articles of incorporation changing its name to Cormax Business Solutions Inc.

On April 1, 2001 Cormax Business Solutions Inc. purchased a 100% interest in Expanded Systems Solutions Inc. ("Expanded Systems"). Cormax purchased Expanded Systems from Novalink for $200,000 USD. Expanded Systems is a wholly owned subsidiary of Cormax Business Solutions Inc. Expanded Systems operations have been discontinued.

On January 29, 2003, the Company acquired all of the issued and outstanding shares of Identification Technologies Inc., a private Alberta corporation ("Identex"), in exchange for 1 million shares of the Company's Series B Preferred Stock. Immediately following the acquisition of Identex, the Company changed its name to Sure Trace Security Corporation (“sure Trace”). Identex, the wholly owned subsidiary changed its name to I.D.ology Laboratories Inc. ("I.D.ology") on June 18th, 2003.

These consolidated financial statements have been prepared using the generally accepted accounting principles applicable to a going concern which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The Company has suffered recurring losses from operations and has a net capital deficiency. The ability of the Company to continue as a going concern is dependent upon many factors, including the ability of the Company to obtain financing to fund working capital requirements, the degree of competition encountered by the Company, technology risks, government regulation and general economic conditions. The Management’s plan in this regard is to raise equity financing as required These consolidated financial statements do not include any adjustments that might result from this uncertainty.

The Company has raised and management feels will continue to raise sufficient capital on a monthly basis to fund the Company’s operating requirements. There can be no assurance that such capital will be successfully obtained. Should the Company not be able to raise sufficient capital, it will need to reduce expenses and/or curtail operations accordingly.

On October 1, 2003, the Company entered into a stock purchase agreement with Can-West Venture Capital Inc. for an aggregate purchase price of $25,000,000. At that time the Company had anticipated the acquisition of a potential business partner. This acquisition did not take place and as a result the full commitment of $25,000,000 was not required. The Company has attempted to renegotiate with Can-West for a lower amount of funding, but has been unsuccessful in reaching an agreement with Can-West. It is the Company’s intention to cancel this agreement, and as of January 2004 the Company entered into negotiations with three potential funding sources as alternatives to Can-West.

1. Nature and Continuance of Operations (continued)

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations. The Company has incurred significant operating losses over the last two years, has a working capital deficiency of ($2,347,380), a stockholders' deficiency of ($2,351,678), and has yet to secure significant sales.

On June 1, 2004, the Company announced the acquisition of Globe Staff Consulting ("GSC"), a privately owned French company. In Form 10-QSB filed for the period ended June 30, 2004, the Company explained the reasons why GSC's financial statements had not been consolidated with those of the Company. Since that date, GSC and the Company have agreed that the previous acquisition agreement will be cancelled in its entirety and that a new contract with revised terms is to be negotiated. Legal counsel has given the Company an opinion that GSC does not need to be consolidated as of December 31, 2004, September 30, 2004, or June 30, 2004. Consequently these statements do not reflect the results of GSC. As of December 31, 2004, the Company had paid $190,708 to GSC on account of the original agreement. This has been recorded as a receivable from GSC on the December 31, 2004 balance sheet, and fully impaired as GSC ability to repay this amount and/or the potential to reach a working agreement between the companies may not materialize. The principal of GSC is a member of the board of directors of the Company.

2. Significant Accounting Policies

(a) Basis of Consolidation

These consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America, include the accounts of the Company and its wholly owned subsidiaries. Significant inter-company accounts and transactions have been eliminated

(b) Accounting Estimates

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

(c) Cash Equivalents

For purposes of the statement of cash flows cash equivalents usually consist of highly liquid investments which are readily convertible into cash with maturity of three months or less when purchased.

2. Significant Accounting Policies (continued)

(d) Fixed Assets

Fixed assets are recorded at historical cost. Depreciation is charged to earnings in amounts sufficient to allocate the costs over their estimated useful lives, as follows:

Audio and visual equipment	20% declining-balance basis
Computer hardware	50% declining-balance basis
Office furniture and equipment	20% declining-balance basis
Leasehold improvements	20% straight-line basis

(e) Foreign currency translation

Financial instruments that potentially subject the Company to concentration of credit risk consist of interest receivable and note receivable, the balances of which are stated on the balance sheet. The Company performs ongoing credit evaluations of its debtors and maintains allowances for possible losses with, when realized, have been within the range of management's expectations. The Company places its cash in high credit quality financial institutions. The Company does not require collateral or other security to support financial instruments subject to credit risk.

(f) Revenue recognition

Revenue from product and services are recognized at the time goods are shipped or services are provided to the customer, with an appropriate provision for returns and allowances. The estimated sales value of fixed price contracts in process is recognized under the percentage-of-completion method of accounting in which the estimated sales value is determined on the basis of physical completion to date.

Accounts receivable are reported as net of an allowance for doubtful accounts. The Company's bad debt allowance is estimated based on actual historical write-offs, net of recoveries, and the aging of accounts receivable balances. The assumptions are reviewed quarterly and adjustments are made to our bad debt allowance as appropriate.

(g) Income Taxes

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 109, "*Accounting for Income Taxes*", which requires the Company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns using the liability method. Under this method, deferred tax liabilities and assets are determined based on the temporary differences between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse. The effect on deferred income tax assets and liabilities of a change in income tax rates is included in the period that includes the enactment date.

2. Significant Accounting Policies (continued)

(h) Long-Lived Assets Impairment

On a periodic basis the Company reviews the carrying values of its long-lived assets, including goodwill, intangible assets and investments. Whenever events or changes in circumstances indicate that the historical cost-carrying value of the asset may no longer be recoverable, a review is performed using the estimated the future net cash flows expected to result from the asset. If the future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

(l) Financial Instruments and Concentration of Risks

Fair value of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgement, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying value of cash and cash equivalents, interest receivable, note receivable, demand loans, accounts payable and accrued liabilities, player funds on deposit and short-term loans approximate their fair values because of the short-term maturity of these instruments.

Financial instruments that potentially subject the Company to concentration of credit risk consist of interest receivable and note receivable, the balances of which are stated on the balance sheet. The Company performs ongoing credit evaluations of its debtors and maintains allowances for possible losses with, when realized, have been within the range of management's expectations. The Company places its cash in high credit quality financial institutions. The Company does not require collateral or other security to support financial instruments subject to credit risk.

(j) Accounting for Derivative Instruments and Hedging Activities

The Financial Accounting Standards Board ("FASB") issued SFAS No. 133 *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 requires companies to recognize all derivatives contracts as either assets or liabilities in the balance sheet and to measure them at fair value. If certain conditions are met, a derivative may be specifically designated as a hedge, the objective of which is to match the timing of gain or loss recognition on the hedging derivative with the recognition of (i) the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk or (ii) the designated as a hedging instrument, the gain or loss is recognized in income in the period of change. As at December 31, 2004, the Company has not entered into any derivative contracts either to hedge existing risks or for speculative purposes.

2. Significant Accounting Policies (continued)

(k) Net Income (Loss) Per Share

Basic net income (loss) per share are computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net income (loss) per share incorporates the incremental shares issuable upon the assumed exercise of stock options and other dilutive securities. Diluted income (loss) per share is equal to the basic income (loss) per share as the stock options to acquire 25,000 common shares that are outstanding at December 31, 2003 are not dilutive.

(l) Stock-based Compensation

The Company has adopted the disclosure-only provisions of SFAS No. 123, "Accounting for Stock-based Compensation". SFAS 123 encourages, but does not require, companies to adopt a fair value based method for determining expense related to stock-based compensation. The Company accounts for stock-based compensation issued to employees and directors using the intrinsic value method as prescribed under Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees" and related interpretations.

(m) Goodwill and Other Intangible assets

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". This statement requires that intangible assets with an indefinite life are not amortized. Intangible assets with a definite life are amortized over its useful life or estimated of its useful life. Indefinite life intangible assets will be tested for impairment annually, and will be tested for impairment between annual tests if any events occur or circumstances change that would indicate that the carrying amount may be impaired. Intangible assets with a definite life are tested for impairment whenever events or circumstances indicate that a carrying amount of an asset (asset group) may not be recoverable. An impairment loss would be recognized when the carrying amount of an asset exceeds the estimated non-discounted cash flows used in determining the fair value of the assets. The amount of the impairment loss to be recorded is calculated by the excess of the assets carrying value over its fair value.

(n) New Accounting Pronouncements

In January 2003, the Financial Accounting Standard Board issued FASB Interpretation No. 46 (FIN 46), *Consolidation of Variable Interest Entities – An Interpretation of Accounting Research Bulletin (ARB) No. 51.* This interpretation addressed the requirements for business enterprises to consolidate related entities in which they are determined to be the primary economic beneficiary as a result of their variable economic interest. The interpretation is intended to provide guidance in judging multiple economic interests in an entity and in determining the primary beneficiary. The interpretation outlines disclosure requirements for VIEs in existence prior to January 31, 2003, outlines consolidation requirements for VIEs created after January 31, 2003. The company has reviewed its major commercial relationship and its overall

2. Significant Accounting Policies (continued)
3.

economic interests with other companies consisting of related parties, vendors, loan creditors and other suppliers to determine the extent of its variable economic interest in these parties. The review has not resulted in a determination that the Company would be judged to be the primary economic beneficiary in any material relationships, or that any material entities would be judged to be Variable Interest Entities of the Company.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This Statement amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative

Instruments and Hedging Activities". This Statement is effective for contracts entered into or modified after June 30, 2003. We do not expect the implementation of SFAS No. 149 to have a material impact on our consolidated financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". This Statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). This Statement is effective for financial instruments entered into or modified after May 30, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. We do not expect the implementation of SFAS No. 150 to have a material impact on our consolidated financial statements. In December 2004, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard number 123r, “ Share Based Payments” (“SFAS 123r”) which superseded SFAS 123 and APB No. 25. This statement eliminates the use of the intrinsic method as previously allowed under APB 25 and is effective for small issuers for years ending after December 15, 2005. The Company does not expect adoption of this statement to have an impact on their operations.

In December 2004, The Financial Accounting Standards Board issued Statement of Financial Accounting Standard number 153 “Exchanges of Non Monetary Assets – An Amendment of APB No 29”. This statement removed the exemption in APB 29 to the use of the fair value method in certain transactions and is effective for years beginning after June 15, 2005. The Company does not expect the adoption of this statement to have an impact on their operations.

(o) Acquisition

On January 29, 2003, the Company agreed to acquire all of the issued and outstanding shares of I.D.ology Laboratories Inc.(“I.D.ology”),formerly Identification Technologies Inc.(“Identex”), an Alberta corporation with its principal offices located in Kelowna, British Columbia, Canada, in exchange for 1,000,000 Series B preferred shares of common stock in the Company. The Company’s Class B Preferred Stock allows the

2. Significant Accounting Policies (continued)

holders thereof to convert such shares into shares of the Company's Class A Common Stock at the ratio of 178 shares of common stock for every one share of Series B Preferred Stock. The number of Series B Preferred Stock to be issued in exchange for all issued and outstanding shares of I.D.ology was based on the underlying value of the Class A Common Stock of the Company. Immediately following the closing of the Acquisition, the shareholders of I.D.ology converted their shares of Series B Preferred Stock into 178,000,000 shares of the Company's Class A Common Stock.

Net identifiable assets acquired:		
Cash	$	**11,242**
Receivables and prepaids		**12,397**
Capital assets		**64,658**
Goodwill		**803,764**
Payables and accruals		**(62,888)**
Due to shareholders		**(7,297)**
Debt		**(21,096)**
Value of net assets acquired	$	**801,000**
Consideration:		
1,000,000 Series B preferred shares	$	**801,000**

3. Capital assets

December 31, 2004

	Cost	Accumulated Depreciation	Fixed asset written off	Net Book Value
Capitalized Leased Property	28,261	12,854	15,407	-
Computer equipment	10,426	3,870	6,556	-
Capital Assets	68,039	26,196	41,853	-
Office furniture and equipment	3,827	1,064	2,763	-
Software	1,948	1,948	--	-
Total	112,501	45,932	66,579	-

With the fixed assets primarily located in the leased Kelowna premises currently seized by the landlord the Company has taken the position to write off the unamortized balance of all fixed assets pending the realization of any potential claims made by the landlord.

4. Convertible Debenture

The Company issued in May 2004 to Cornell Capital LP, (the "Investor") $150,000 of convertible debentures that are convertible into shares of common stock at a discounted market price. The convertible debentures are secured by all of Company's assets, interest bearing at 5% per annum and matured two years from the date of issuance. The Company has the right to redeem the debenture upon 30 days notice for 120% of the amount plus accrued interest.

Upon the issuance of the notes, the net proceeds $150,000 received were allocated between the liability and equity components of the notes. The liability component $136,983 represents the present value of the notes discounted using the interest rate that would have been applicable to non-convertible debt. The equity component $13,017 represents the residual value of proceeds after allocated to the liability component. Over the terms of the notes, the liability and the interest components are accreted to their face value. As at December 31, 2004, the convertible debenture was $141,640.22.

5. Accrued liabilities

		December 31 2004		December 31 2003
Unpaid wages, consulting fees and benefits	**$**	**235,042**	$	210,484
Interest payable		**203,467**		188,467
Overdue payroll remittances		**341,562**		146,649
	$	**780,071**	$	545,600

Management also considers that accrued to the date of this report although not assessed by Canada Customs and Revenue Agency ("CCRA") there to be a further $50,000 in interest and penalties based on the outstanding amount for payroll remittances.

6. Notes payable

		December 31 2004		2003
Note payable to individual, 12% interest, due on demand, Secured by assignment of contract rights	**$**	**166,000**	$	166,000
Note payable to individual, 12% interest, due on demand, Secured by assignment of contract rights		**84,000**		84,000
Note payable to individual, 12% interest, due on demand, Unsecured		-		
Malcap Investments Ltd., 8% interest only payable quarterly, due on demand		**29,133**		26,480
	$	**279,133**	$	276,480

6. **Notes payable** (continued)

On December 23, 2002, the Company entered into a Settlement and Release Agreement (the "Settlement Agreements") with each of the following parties: John Bader, Wayne E. Williams and JAGI Capital Group, Inc., a corporation organized under the laws of the State of Virginia. The Settlement Agreements were entered into to fully settle the litigation brought in the Tarrant County District Court in the State of Texas entitled *John Bader, Wayne E. Williams and JAGI Capital Group vs. Watchout! Inc. and David Galoob and Robert Galoob* for $250,000 US plus interest.

Pursuant to the terms of the Settlement Agreements with Bader and Williams, the Company was to pay an aggregate of $22,500 to the plaintiffs on February 15, 2003 and another $22,500 on March 30, 2003. The Company has not made any portion of these payments. The Company is also obligated under the Settlement Agreements to issue to plaintiffs Bader and Williams such shares of its common stock that

has a value of $230,000 and issue to plaintiff JAGI Capital Group 250,000 purchase warrants giving JAGI the right to purchase 250,000 shares of the Company's common stock. The price of the shares to be issued to Bader and Williams and the purchase price for the warrants issued to JAGI are each to be equal 75% percent of the lowest market value of the Company's stock as of specific events. The Company is obligated to register the shares to be issued to Bader and Williams and the shares underlying the warrants issued to JAGI in a Registration Statement with the U.S. Securities and Exchange Commission by February 28, 2003. As of the date of this filing, the Company has not filed such registration statement.

On December 4, 2003, the Company was served with the Plaintiff's fourth amended petition seeking enforcement of the Settlement Agreements or alternatively enforcement of the promissory notes, loan agreements and security agreements that were entered into by the Company on September 19, 1997.

On February 24, 2005, the Company entered into a Compromise Settlement Agreement And Mutual Release Of Claims with the Plaintiff. The Company will pay the sum of $217,234.38 to the Plaintiffs in the following increments:

a. $17,234.38 upon execution of the Agreement
b. $50,000 on or before 30 days from the date of the Agreement;
c. $50,000 on or before 60 days from the date of the Agreement;
d. $50,000 on or before 90 days from the date of the Agreement;
e. $50,000 on or before 120 days from the date of the Agreement;

The amounts paid to the Plaintiffs by the Company under this agreement are deemed to be repayment of the original principal amounts of the notes payable made.

7. Settlement with a former affiliate

In October 2002, a former affiliate terminated his employment with the Company. As a result of a termination agreement, the former affiliate was to waive any remaining debt due to him by the Company in return for the issuance of common stock and warrants. Such stock and warrants were never issued by the Company, and the termination agreement remained in dispute.

7. Settlement with a former affiliate (continued)

In August 2004, the Company came to an agreement with the former Affiliate to settle all remaining claims for $350,000. The $350,000 was resolved by the issuance of two shares of common stock of the Company in return for $350,000 of payments to be made to the Company by the former affiliate. As of December 31, 2004 the $350,000 commitment had been paid in return for $700,000 of stock. The Company took a total net charge of $350,000 in the quarter ended September 30, 2004.

8. Income taxes

There has been no provision for U.S. federal, state or foreign income taxes for any period because the Company has incurred losses in all periods and for all jurisdictions.

	December 31	
	2004	2003
Loss before income tax	**$ 6,736,700**	$ 4,313,884
Composite statutory income tax rate	**35.0%**	35.0%
Expected income tax recovery	**$ (2,357,845)**	$ (1,509,859)
Tax benefit not recognized	**2,357,845**	1,509,859
Income tax expense (recovery)	**$ -**	$ -

As of December 31, 2004, the Company had net operating loss carry forwards for U.S. federal income tax purposes. These carry forwards, if not utilized to offset taxable income begin to expire in 2009. Utilization of the net operating losses may be subject to substantial limitations provided by the Internal Revenue Code and similar state provisions. Due to uncertainty of utilizing these net operating losses, the Company has recorded a valuation allowance of an amount equal to the related deferred tax asset.

9. Capital Stock

During the period ended December 31, 2004, 26,793,661 common shares were issued for services provided to the Company. The number of shares issued for services were based on the current market price of the Class A Common Stock of the Company at the time the services were provided and totalled $3,204,394. Also, during the period 34,482,161 common shares were issued as a result of the exercising of stock options. The Company received $2,371,013 when these options were exercised.

10. Stock option plans

Under the Company's 2003 Special Stock Option Plan 33,000,000 options were made available to be issued to certain consultants in exchange for services. These options are granted and exercised at the time such services are deemed to be performed at the discretion of the Board of Directors. At the time the options are exercised the difference between the exercise price and the fair market value of the stock on that day is considered by the Company to be compensation. During the year ended December 31, 2004 the Company recorded $3,810,610 of consulting expense relating to the granting of options under this plan.

11. Stock option plans (continued)

The following table sets forth the status of the 2003 Special Stock Option Plan for the period starting January 1, 2004 and ending December 31, 2004:

	2004	
	Shares	Weighted average exercise price
Outstanding at January 1	-	-
Granted and exercisable	-	-
Exercised	-	-
Outstanding and exercisable at December 31	-	
	-	

The following table sets forth the status of the 2003 Special Stock Option and Stock Award Plan for the year ended December 31, 2003:

	2003	
	Shares	Weighted average exercise price
Outstanding at January 1		-
Granted and exercisable	**7,006,588**	**$0.0775**
Exercised	**7,006,588**	**$0.0775**
Outstanding and exercisable at December 31	-	

12. Goodwill

During 2003, goodwill valued at $803,764 was acquired with the acquisition of Identification Technologies Inc.("Identex"). This amount was considered to be recoverable based on the Company's business plan and projected future cash flows. The successful implementation of the Company's business plan continues to be contingent on the Company's ability to raise sufficient capital. To date, the Company has been unable to fully implement the business plan although sufficient funds have been raised to fund the Company's operating requirements. At December 31, 2003 management determined that the goodwill was impaired under SFAS No. 142, and was, as a result written off.

13. Geographic Information

All the Company's operations and fixed assets are located in Canada.

14. Legal Proceedings

The Company has received various complaints from former staff through the Alberta Human Resources and Employment Branch. These claims are being addressed and are considered normal course business of operations. More specific claims are as follows:

14. Legal Proceedings (continued)

1. On December 23, 2002, the Company entered into a Settlement and Release Agreement (the "Settlement Agreements") with each of the following parties: John Bader, Wayne E. Williams and JAGI Capital Group, Inc., a corporation organized under the laws of the State of Virginia. The Settlement Agreements were entered into to fully settle the litigation brought in the Tarrant County District Court in the State of Texas entitled *John Bader, Wayne E. Williams and JAGI Capital Group vs. Watchout! Inc. and David Galoob and Robert Galoob* for $250,000 US plus interest.

Pursuant to the terms of the Settlement Agreements, the Company was to pay an aggregate of $22,500 to the plaintiffs on February 15, 2003 and another $22,500 on March 30, 2003. The Company has not made any portion of these payments. The Company is also obligated under the Settlement Agreements to issue to plaintiffs Bader and Williams such shares of its common stock that has a value of $230,000 and issue to plaintiff JAGI Capital Group 250,000 purchase warrants giving JAGI the right to purchase 250,000 shares of the Company's common stock. The price of the shares to be issued to Bader and Williams and the purchase price for the warrants issued to JAGI are each to be equal 75% percent of the lowest market value of the Company's stock as of specific events. The Company is obligated to register the shares to be issued to Bader and Williams and the shares underlying the warrants issued to JAGI in a Registration Statement with the U.S. Securities and Exchange Commission by February 28, 2003. As of the date of this filing, the Company has not filed such registration statement.

On December 4, 2003, the Company was served with the Plaintiff's fourth amended petition seeking enforcement of the Settlement Agreements or alternatively enforcement of the promissory notes, loan agreements and security agreements that were entered into by the Company on September 19, 1997.

On February 24, 2005, the Company entered into a Compromise Settlement Agreement And Mutual Release Of Claims with the Plaintiff. The Company will pay the sum of $217,234.38 to the Plaintiffs in the following increments:

- $17,234.38 upon execution of the Agreement
- $50,000 on or before 30 days from the date of the Agreement;
- $50,000 on or before 60 days from the date of the Agreement;
- $50,000 on or before 90 days from the date of the Agreement;
- $50,000 on or before 120 days from the date of the Agreement;

The amounts paid to the Plaintiffs by the Company under this agreement are deemed to be repayment of the original principal amounts of the promissory notes made.

2. On October 27, 2004, Mr. Fred Lindsay (“Plaintiff”) filed a writ of summons in the Supreme Court of British Columbia against Sure Trace Security Corporation. The plaintiff claims as follows: A. Damages in the amount of $50,000; B. An order that Sure Trace forthwith transfer the Shares to the Plaintiff, to be dated February 12, 2003, or alternatively additional damages to the Plaintiff for those shares; C. An order that Sure

14. Legal Proceedings (continued)

Trace transfer additional shares to cover additional damages; D. Damages for the diminution of the Plaintiff's Investment from February 12, 2003 to the date of the trial; E. Interest pursuant to the Court Order Interest Act, R.S.B.C. 1996, c.79; F. Costs; and G. Such Further and other relief as the Court shall deem. Sure Trace has filed a pro forma statement of defense and is looking to make a reasonable settlement proposal to the Plaintiff.

3. On December 23rd, 2004 Robert A. Jennens and B. Jennens Consulting Inc. filed a Writ of Summons in the Supreme Court of British Columbia against Sure Trace Security Corporation. In or about January 2003, pursuant to a share exchange agreement made between Cormax Business Solutions Inc., Identification Technologies Inc. and certain Security Holders of Identification Technologies Inc. Pursuant to an agreement March 31, 2003, the Plaintiff claims Sure Trace has an obligation to pay up to $60,000 or, alternatively, to issue the requisite shares in the capital stock of the Defendant equal to 150% of up to $60,000.00.

   On or About May 1, 2004 Jennens Holdings Ltd. entered into a consulting services agreement with Sure Trace to provide consulting services and incurred business-related expenses such that at December 23, 2004 the Plaintiff claims they are owed $74,900.00 USD for consulting fees and $2,210.19 for business expenses.

   As of December 23, 2004, Pursuant to a Bridge Capital Agreement, Jennens claims he is owed $22,450.00

   Pursuant to an Employment Standards Claim dated January 30th, 2004 totaling $71,625.00, Jennens claims Sure Trace owes him.

   Sure Trace's Intention is to vigorously defend this claim, file a statement of Defense and enter counter claims against Robert A. Jennens and B. Jennens Consulting Inc.

4. On December 7th, 2004, Kjell Sudenius filed a Writ of Summons in the Supreme Court of British Columbia against Sure Trace Inc., Sure Trace Security Corporation., I.D.ology Laboratories Inc., Globe Staff Consulting SARL, Jean Gilles Subervie, Cameron Moriarty, David Downes and James Ronald MacKay, filed Damages for Breach of Contract in the amount of $370,000; General damages for wrongful dismissal, breach of contract and unjust enrichment, general damages for emotional pain and suffering, aggravated or punitive damages, special damages, costs of this action, interest and such further and other reliefs the court deems just.

5. On March 8th, 2005, Sure Trace was given an Arbitration Notice in the matter of arbitration pursuant to the Executive Employment Agreement of David S. Downes. The value of Mr. Downes claim is initially estimated at $200,000USD.

The Company will be pursuing this matter with a counter claim.

15. Subsequent Events

As announced in a previous press release The Beneficial Group, of which Tien May Lau (a former director of the Company) is Managing Partner verbally agreed to execute a license agreement with the Company and acquire the rights for Asia for marketing the Company's product for proceeds of $250,000UUSD. This was received by the Company in November 2004 as $200,000 (net of unreceipted expenses but claimed $50,000 by Tien May Lau). No agreement was ever executed and subsequent to December 31, 2004 and subsequent to Tien May Lau's resignation as a member of the Board of Directors of the Company a demand has been made for repayment of these funds of $250,000 as Tien May Lau is representing the funds were not intended as consideration for a licensing agreement.

The Company has turned the issue over to legal counsel and has recorded the $250,000 as a loan due to the Beneficial Group pending an outcome.