Form 10KSB/A

CREATIVE VISTAS INC - CVAS

Filed: April 17, 2006 (period: December 31, 2004)

Amendment to a previously filed 10KSB

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PART I

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-KSB

Amendment No. 1

ANNUAL REPORT UNDER SECTION 13 or 15 (d)

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2004

Commission file number 00-30585

Creative Vistas, Inc.
(Exact name of Registrant as specified in its charter)

Arizona	3669	86-0464104
(State of incorporation)	(Primary Standard Industrial Classification Code Number)	(IRS Employer ID Number)

2100 Forbes Street
Unit 8-10
Whitby, Ontario, Canada L1N 9T3
(905) 666-8676

(Address of principal executive offices)

Registrant's telephone number, including area code: (905) 666-8676
Securities registered pursuant to Section 12 (b) of the Exchange Act: None
Securities registered pursuant to Section 12 (g) of the Exchange Act:

Title of Class	Number of Shares Outstanding as of April 17, 2006
Common Stock, $.01 par value	32,201,716

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 ☐

Check if 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 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: $8,457,670

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, based on the closing price for such common equity on April 13, 2005 is approximately $2,275,825.

The number of shares outstanding of the Issuer's common stock, as of April 17, 2006: 32,201,716 shares

EXPLANATORY NOTE

The sole purpose of this Form 10-KSB Amendment is to include restated financial statements relating to our accounting for the convertible term note, warrants and options and related registration rights in connection with our financing transaction entered into with Laurus Master Funds, Ltd. on September 30, 2004. We are currently responding to comments provided by the Staff of the Securities and Exchange Commission in connection with our registration statement on Form SB-2. These comments affect our past filings and may affect this filing. The most recent comments relate to our accounting for certain convertible debt that have warrants, options, and related registration rights. We intend to file a formal response to the SEC's accounting comments related to the Company's registration statement on Form SB-2, and in this filing, we have treated the warrants and options that have registration rights associated with them as derivative liabilities. In addition, we have amended the quarterly reports of the quarters ended September 30, 2004, March 31, 2005 and June 30, 2005 to reflect this accounting. We have also received comments from the Securities and Exchange Commission regarding whether our convertible debt is a "conventional convertible" instrument. We have responded to the Staff's comments, explaining why, at the time they were issued, we believed that this instrument was "conventional". However, this topic has recently been addressed and clarified by the Financial Accounting Standards Board's Emerging Issues Task Force in Issue 05-2 (EITF 05-2). We issued these instruments prior to EITF 05-2 and interpreted the term "conventional" differently as it relates to certain special anti-dilution provisions. As a result, we have bifurcated the conversion features of some or all of these convertible instruments and record them as derivative liabilities and then mark the liabilities to their fair value at each reporting date.

Forward-Looking Statements

Certain statements within this Form 10-KSB constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual results, performance or achievements of Creative Vistas, Inc. to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on our current expectations and are subject to a number of risks, uncertainties and assumptions relating to our operations, financial condition and results of operations, including, among others, rapid technological and other changes in the market we serve, our numerous competitors and the few barriers to entry for potential competitors, the seasonality and quarterly variations we experience in our revenue, our uncertain revenue growth, our ability to attract and retain qualified personnel, our ability to expand our infrastructure and manage our growth, and our ability to identify, finance and integrate acquisitions, among others. If any of these risks or uncertainties materialize, or if any of the underlying assumptions prove incorrect, actual results may differ significantly from results expressed or implied in any forward-looking statements made by us. These and other risks are detailed in this Annual Report on Form 10-KSB and in other documents filed by us with the Securities and Exchange Commission. Creative Vistas, Inc. undertakes no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.

Item 6. Management's Discussion and Analysis

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those discussed therein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably a number of new projects. Except as required by law, we do not intend to publicly release the results of any revisions to those forward-looking statements that may be made to reflect any future events or circumstances.

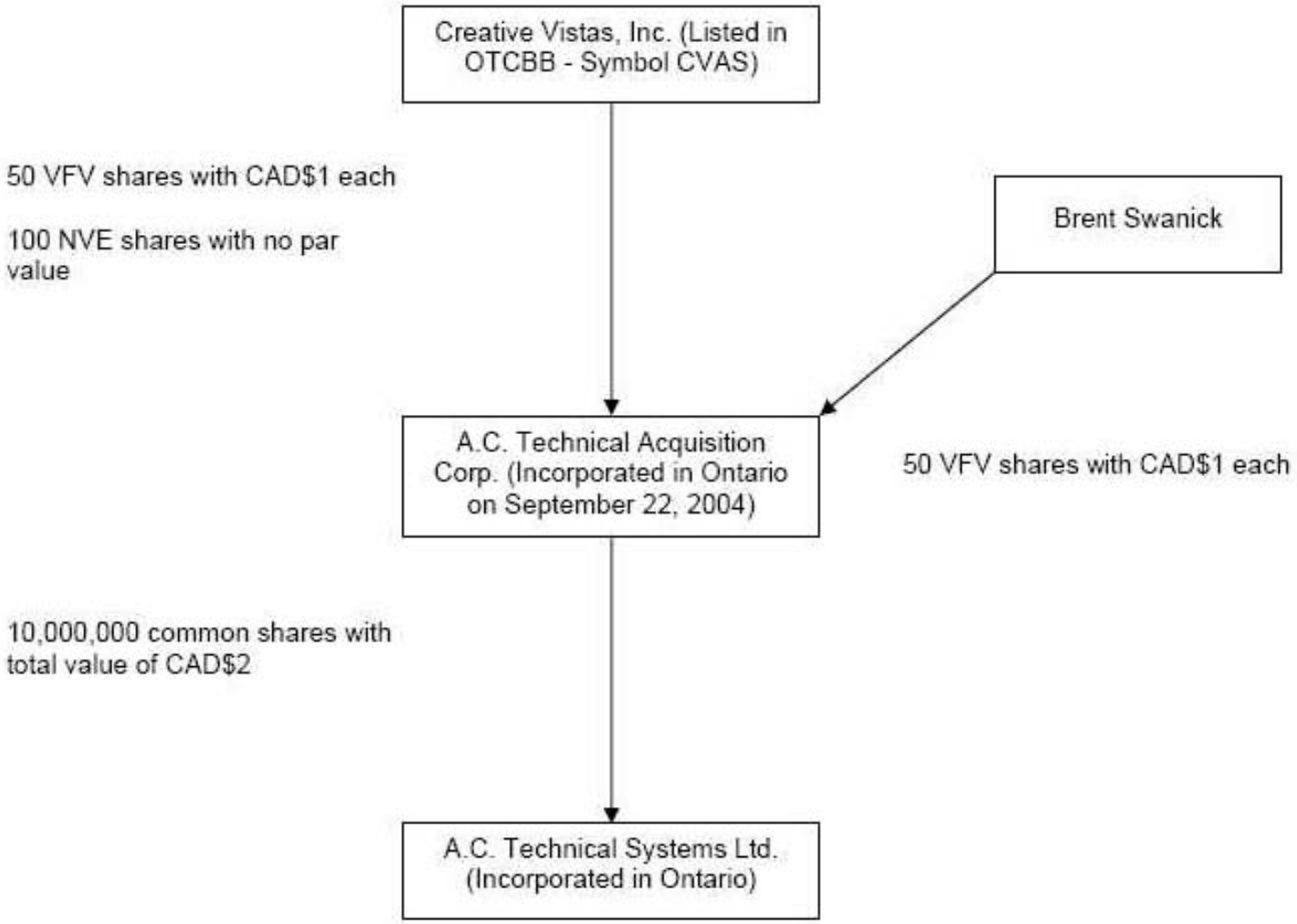
No financial statements are presented for the shell company, Creative Vistas, Inc., prior to the business acquisition and leverage buyout transactions because, prior to the September 30, 2004 transaction, its assets and results were immaterial. Prior to September 30, 2004 Creative Vistas refers to the shell company. The term “the Company” refers to the post business acquisition and leverage buyout consolidated entity.

Overview and Recent Developments

On September 22, 2004, we incorporated a new Ontario company, A.C. Technical Acquisition Corp., in order to effect the acquisition of A.C. Technical Systems Ltd. Creative Vistas, Inc. owns 50 VFV shares (voting fixed value shares) and 100 NVE shares (non-voting equity shares) of AC Acquisition. Brent Swanick owns the remaining 50 VFV shares. The total issued share capital was CDN$100 (CDN$1 for each VFV share). Each VFV share is only entitled to a return of CDN$1 upon dissolution of AC Acquisition and has no share in AC Acquisition's profits; AC Acquisition is a direct subsidiary of ours and our 100 NVE shares have the entire interest in the profits of AC Acquisition.

On September 29, 2004, pursuant to a Stock Purchase Agreement with The Burns Trust (our president is one of the beneficiaries of the trust), The Navaratnam Trust (our CEO is one of the beneficiaries of the trust) and A.C. Technical Systems Ltd., AC Acquisition acquired all of the issued and outstanding shares of AC Technical from The Burns Trust and The Navaratnam Trust for consideration consisting of promissory notes in the aggregate amount of $3,300,000. AC Technical became an indirect subsidiary of the Company and a wholly owned direct subsidiary of AC Acquisition.

The current corporate structure is as follows:



The above structure was set up for Canadian tax purposes. This allows AC Technical to maintain its status as a Canadian Controlled Private Corporation ("CCPC"), which makes it eligible for Canadian research and development tax credits. A CCPC is a corporation that is not controlled by a non-Canadian entity. Consequently Brent Swanick, who is Canadian, holds 50% of the voting shares and the Company holds 50% of the voting shares and 100% of the non-voting equity shares so as to satisfy the requirement for CCPC tax treatment. To provide protection to the Company, there is a voting agreement between Mr. Swanick and Creative Vistas, Inc. granting Creative Vistas, Inc. the power at any time to cause Mr. Swanick to transfer his VFV shares to another person designated by Creative Vistas. The result is that under the Canadian tax law, control is not with a foreign entity and AC Technical Systems Ltd. is considered a CCPC. However, Creative Vistas, Inc. by virtue of its ability to cause the transfer at any time of the VFV shares, completely controls AC Technical. However, the provisions of the voting agreement do not affect AC Technical's qualification as a CCPC entitled to certain tax credits.

On September 30, 2004 the shareholders (The Burns Trust and The Navaratnam Trust) of A.C. Technical Systems Ltd., an Ontario corporation, entered into a series of transactions to acquire a controlling stock interest in Creative Vistas. On September 30, 2004, pursuant to a Common Stock Purchase Agreement with Miller Capital Corporation and Tudor Investments LTD Profit Sharing Plan, Sayan Navaratnam, Dominic Burns, Randy Stern and Malar Trust, Inc. purchased 28,500,000 shares of Creative Vistas, Inc.'s common stock from Miller Capital Corporation and Tudor Investments LTD Profit Sharing Plan for cash consideration of $300,000. Immediately prior to this purchase, there were 1,500,000 shares of Creative Vistas, Inc. common stock outstanding which remained outstanding and were retained by the pre-existing stockholders of Creative Vistas, Inc.

On September 30, 2004, we entered into a series of agreements with Laurus Master Fund, Ltd., one of the selling shareholders, whereby we issued to Laurus (i) a secured convertible term note in the amount of $4.5 million, (ii) secured revolving notes in the aggregate maximum amount of $3 million, (iii) a related option to purchase up to 1,499,997 shares of our common stock at a price of two-thirds of a cent per share, and (iv) a seven year warrant to purchase up to 2,250,000 shares of our common stock at a price of $1.15 per share. The loan is secured by all of our assets and the assets of our subsidiaries.

The Company loaned the proceeds of the term note and the revolving notes to AC Acquisition. AC Acquisition used the funds received to repay an aggregate of $1.8 million of the principal amount of the promissory notes and to pay transaction costs.

After the completion of the business acquisition and leveraged buyout transactions Sayan Navaratnam and Dominic Burns controlled 56% and 37% respectively of the common stock of the Company. Consequently, the acquisition of the controlling stock interest in the non-operating public shell corporation, Creative Vistas (the legal acquirer), by the shareholders of AC Technical, has been accounted for in accordance with EITF 88-16, “Basis in Leveraged Buyout Transactions”.

On September 30, 2004 the previous management and Directors of the Company resigned and in addition to being appointed to the Board of Directors, Sayan Navaratnam and Dominic Burns were appointed Chief Executive Officer and President, respectively. Additionally, AC Technical's Chief Financial Officer, Heung Hung Lee, was appointed Chief Financial Officer of the Company.

Our largest customer, Loblaws Companies Ltd. accounted for approximately 22% and 32% of our revenues in each of the fiscal years ended December 31, 2004 and 2003, respectively. We anticipate that Loblaws Companies Ltd. will account for a significant portion of our future revenues. Five other customers each accounted for from 1% to 6% of our revenues during the same periods.

More than 70% of our revenues are based on purchase orders.

On December 3, 2004, the Company announced that AC Technical was awarded approximately $643,000 in orders for new security projects, providing access control and CCTV equipment plus installation and related services in three projects for the Canadian Government.

In the private sector, on December 20, 2004, the Company announced that AC Technical had been awarded approximately $603,000 in orders for security-related equipment and services for a Canadian regional healthcare facility.

On January 5, 2005, the Company announced that AC Technical was awarded orders for approximately $364,000 in security projects for a Canadian retailer.

On January 12, 2005, the Company announced that AC Technical entered into a letter of intent to acquire the privately-held dataBahn, Inc. dataBahn is based in Farmers Branch, Texas, and provides solutions to connect consumers and commercial users by providing satellite-based internet, voice and data services to the emerging broadband mobile communications markets. The acquisition is subject, among other things, to due diligence and the negotiation of definitive documentation. In furtherance of this acquisition, on March 9, 2005, the Company made a two-year secured loan to dataBahn in the amount of $125,000 and agreed to lend dataBahn an additional $125,000.

On February 1, 2005, the Company announced that AC Technical was awarded additional orders worth approximately $177,000 in security projects for a Canadian retailer.

On February 7, 2005, the Company announced that AC Technical was awarded orders for over $322,000 in security projects for the Canadian Government.

On February 11, 2005, the Company announced that AC Technical was selected by BMW to implement a security project to provide the automotive manufacturer with advanced digital video surveillance equipment, plus integration and related services designed to ensure the security of BMW's locations in Canada. The project is expected to be completed during the first half of 2005.

On March 11, 2005 the Company announced that AC Technical was awarded approximately $803,900 in orders for security projects by the Canadian Government, and companies in the education, medical and healthcare markets.

On March 24, 2005 the Company announced that AC Technical was awarded approximately $1,366,600 in additional orders for security projects by the Canadian Government, and companies in the education, medical and healthcare markets.

On April 1, 2005 the Company announced that AC Technical received a grant from Canada's Industrial Research Assistance Program.

On June 2, 2005 the Company announced that A.C. Technical Systems, Ltd. was awarded approximately $803,900 in orders for security and surveillance projects by the Canadian Government, and companies in the commercial property management and education markets.

On September 7, 2005 the Company announced that AC Technical was awarded orders for approximately $337,000 to upgrade a security system for a large commercial property.

On October 7, 2005 the Company announced that AC Technical was awarded approximately $843,700 in orders for security and surveillance projects by the Canadian government and companies in the commercial property management, retail, healthcare and education markets

Results of Operations

Comparison of Year Ended December 31, 2004
to Year Ended December 31, 2003

Since our business tends to be seasonal, most of the jobs are usually processed by us in the first or the fourth quarter of the calendar year. For example, the Canadian federal government has a March year end, and as a result, we experience an increase in government contracts in the first quarter of the calendar year.

For purposes of this “Management's Discussion and Analysis or Plan of Operation” the numbers in the financial statements covering the successor period from September 30, 2004 to December 31, 2004 were combined with the predecessor period from January 1, 2004 to September 29, 2004 to reflect the entire fiscal year ended December 31, 2004.

Sales: Sales for fiscal 2004 totaled $8,458,000 representing a decrease of 8.6% from the 2003 fiscal year. The decrease represents an 11% decrease in contract revenue offset in part by a 15% increase in service revenue. Our contract revenue decreased by 11%, including the impact of foreign exchange, mainly due to project and constructions delays. In addition, contract revenue from one of our major customers decreased from $2,900,000 in 2003 to $1,800,000 in 2004. Fiscal 2003's revenue was higher as this customer had a greater number of stores that required security systems. The increase in service revenue primarily represents the cumulative effect of the growth in contracts and number of customers over the past few years. We have experienced a significant increase in the number of inquiries for systems from the government and retail sector. This increased interest in security products and services may result in our achieving increased revenues in future periods if we are successful in attracting new customers or obtaining additional projects from existing customers. There is no assurance that the Company will be able to attract new customers.

Cost of Goods Sold: Cost of goods sold as a percentage of revenue for the twelve months ended December 31, 2004 increased to $5,884,000 or 69.6% of revenues from $5,801,700 or 62.7% of revenues, for the twelve months ended December 31, 2003. The increase was mainly due to the increase in material cost to $4,082,900 or 48.5% of revenues in fiscal 2004 from $4,197,200 or 45.5% in fiscal 2003. The increase in the cost of materials was mainly due to an increase in contracts for which we required materials. The percentage increase in material costs was mainly due to our charging lower rates to compete in an increasingly competitive market. As a result, our gross margin decreased. On the other hand, the labor and subcontractor cost increased to $1,756,400 or 20.9% of revenues for fiscal 2004 from $1,569,184 or 17.0% of revenues for fiscal 2003. This increase was mainly due to the increase in salaries of internal staff.

Project, Selling, General and Administrative Expenses: Projects, selling, general and administrative expenses for the twelve months ended December 31, 2004 increased to $4,065,000 or 48.1% of revenues for fiscal 2004 from $3,196,200 or 34.5% of revenues for fiscal 2003. The increase was mainly due to the following:

Increase in project cost to $1,403,000 for fiscal 2004 from $1,337,800 for fiscal 2003. The increase was mainly due to an increase in usage and cost of gas and telephone and increased staff travel to our customers. The increase was offset by the decrease in salaries and benefits by $61,500 which was mainly due to reduction in staff during the year.

Increase in selling expenses to $1,003,000 or 11.9% of revenues for fiscal 2004 from $906,800 or 9.8% of revenues for fiscal 2003. The increase was mainly due to the increase in advertising and promotion cost by $14,000 which was mainly due to more promotion expenses incurred by our salespersons. Also, salaries and commissions to salespersons increased by $114,000 which was mainly due to the increase in salespersons from 7 at the end of 2003 to 9 at the end of 2004. The increase was offset by the decrease in trade show expenses by $27,000 as the number of trade shows attended decreased during the year.

Increase in general and administrative cost to $1,660,000 or 19.7% of revenues for fiscal 2004 was mainly due to the increase in salaries and benefits by $219,000 for two new staff hired during the year: an employee in the Research and Development department and the new Chief Financial Officer. Also, the professional fees and transaction costs increased by $529,000 which was mainly due to the increase in audit fees, legal fees and consulting fees relating to the transactions and the first year preparation fees for quarterly and annual reports and registration statements and investor relation expenses. Total legal fees for the year were approximately $300,000 as compared to $12,000 in fiscal 2003. The increase was mainly due to the transaction fees and fees related to filing the registration statement of which this prospectus is a part. In addition, audit fees increased by $70,000 which was mainly due to the first year preparation fees for quarterly and annual reports and registration statements. In addition, the investment banking fee for the year was $148,000 (2003: $Nil). Investor relations fee was $28,000 (2003: $Nil).

Operating Income/Loss: Our losses were mainly due to some projects with lower gross margins in 2004. The gross margin for the year decreased by 7%. In addition, we hired more salespersons and other administrative staff. There were increases in expenses incurred in the business acquisition and leveraged buyout transactions and also expenditures on infrastructure in preparation of becoming a public company and in preparation for future expansion. We have also invested in research and development to improve and expand our technology base, which may result in increased margins and increased revenues in the future.

Interest and Other Expenses: Interest and other expenses for the twelve months ended December 31, 2004 increased to $2,673,500 or 31.6% of the revenues for fiscal 2004 from $24,800 or 1% of the revenues for fiscal 2003. The increase was primarily due to the amortization of deferred charges and remeasurement of deritivaties amounting to $2,540,100 compared to no such expenses in fiscal 2003. In addition, the Company incurred additional borrowings in the business acquisition and leverage buyout transactions and also incurred expenditures on infrastructure in preparation for becoming a public company and in preparation for future expansion since September 30, 2004. Total interest for the year was $133,000 (2003:$25,000).

Income taxes: Income tax recoveries for the twelve months ended December 31, 2004 increased to $150,000 from income tax expenses of $65,700 in fiscal 2003. The changes were mainly due to the tax benefits on losses carried back to prior years and the utilization of research and development tax credits.

Net Income/Loss: Net loss for the twelve months ended December 31, 2004 was $4,014,800 compared to net income of $163,000 for the twelve months ended December 31, 2003. The net loss for fiscal 2004 was caused by the decrease in gross margin from 37.3% to 30.4%. In addition, the additional amortization of deferred charges and remeasurement of derivative financial instruments amounted to $2,540,100. Also, the professional and transaction expenses increased by $529,000 compared to the fiscal 2003.

Liquidity and Capital Resources

Since our inception, we have financed our operations through bank debt, loans and equity from our principals, loans from third parties and funds generated by our business. As of December 31, 2004, we had $1,627,000 in cash. The balance at December 31, 2004 includes $1,250,000 which was deposited in a restricted bank account. Pursuant to the Securities Purchase Agreement between the Laurus and the Company and a restricted account agreement entered into by the Company, Laurus and a US bank, the $1,250,000 was deposited into a restricted account for the benefit of Laurus as additional security for the obligations of the Company under the purchase agreement and the related agreements. The restricted account is to be maintained at the US bank until the effectiveness of the registration statement of which this prospectus is a part and certain other conditions set out in the agreement are satisfied by the Company. The ability to use the funds is subject to limitations and restrictions. At Laurus' discretion, the restricted account is a potential source of financing of future Company acquisitions without the Company having to negotiate new definitive documentation. Subsequent to year end, Laurus has released $125,000 from the restricted account to the Company to fund the Company's loan to dataBahn on March 9, 2005. We believe that cash from operations and our credit facilities with Laurus Master Funds, Ltd. will continue to be adequate to satisfy the ongoing working capital needs of the Company. During the next 12 months, our primary objectives in managing liquidity and cash flows will be to ensure financial flexibility to support growth and entry into new markets and improve inventory management and to accelerate the collection of accounts receivable.

Net Cash Used in Operating Activities. Net cash used in operating activities amounted to $1,984,000 for the twelve months ended December 31, 2004 compared to $445,500 for the twelve months ended December 31, 2003. The changes in operating assets and liabilities resulted in a use of cash of $734,600, which included a $385,000 increase in accounts receivable, a $201,000 decrease in inventory, a $2,100 decrease in prepaid expenses, a $334,000 decrease in accounts payable, a $354,700 increase in income taxes recoverable, a $76,000 decrease in deferred income taxes and a $60,000 increase in deferred revenue.

Comparison of the balance sheet as at December 31, 2004 to December 31, 2003

Accounts Receivable

Our accounts receivable increased by 25% mainly due to more government related jobs, which have a longer payment cycle, during fiscal 2004 and slower than normal payment on other jobs. Approximately 75% of the accounts receivable outstanding at December 31, 2004 were less than 60 days old compared with only 70% at December 31, 2003.

Inventory

Inventory on hand at December 31, 2004 decreased 23% compared to December 31, 2003. The decrease was mainly due to the improvement of inventory control and also the decrease in revenue compared to fiscal year 2003.

Accounts Payable and Accrued Liabilities

Accounts payable decreased 12% to $1,418,200 which was mainly due to the decrease in inventory purchased for future growth and the timing of payments to our suppliers. Accrued liabilities increased by $98,000 largely as a result of the timing of payments and accrued professional fees in connection with SEC filings, and accrued insurance payable. The accrued professional fees and insurance payable were approximately $78,000 as at December 31, 2004 and $11,000 as at December 31, 2003.

Deferred Revenue

Deferred revenue increased 88% to $190,300 in 2004 from $101,000 in 2003. This increase was mainly due to the timing of payments by our customers. Deferred revenue primarily relates to payments associated with the contracts where revenue is recognized on a percentage of completion basis. (See summary of accounting policy in our consolidated financial statements).

Incomes Taxes Recoverable

The income taxes recoverable increased to $326,800 as at December 31, 2004 compared to income tax payable of $40,000 as at December 31, 2003. The changes were mainly due to the expected refund from losses carried back to prior years.

Net Cash Used in Investing Activities. Net cash used in investing activities was $1,799,500 for the twelve months ended December 31, 2004 compared to $38,000 for the twelve months ended December 31, 2003. The increase was mainly due to the acquisition of A.C. Technical Systems Ltd. for cash payments of $1,800,000.

Net Cash Provided From Financing Activities. Net cash provided from financing activities increased to $4,163,000 for the twelve months ended December 31, 2004 compared to $483,700 for the twelve months ended December 31, 2003. The increase as at December 31, 2004 was principally caused by additional borrowings from Laurus Master Fund, Ltd. including revolving facilities of approximately $2,500,000 and convertible notes of $4,500,000 (of which $1,250,000 was placed in a restricted account by Laurus) (see details of arrangement with Laurus Master Fund, Ltd. in the following paragraphs.). In addition, the increase was partially offset by the repayment of a total of $1,000,000 of credit facilities with a Canadian Bank with the proceeds of the Company's new facilities with Laurus. The cost of capital of this transaction was approximately $900,000 with total borrowings from Laurus amounting to $7,000,000. Some of the expenses incurred have been deferred and are recorded under Deferred Charges (see Note 8 in the financial statements as at December 31, 2004). The Company has obtained a better interest rate from Laurus of prime plus 2% compared to the interest rate the Company obtained from the Canadian Bank which varied for different dollar amounts borrowed but ranged from prime plus 2% to prime plus 5%. However, instead of requiring the Company to repay principal and interest on the loans in cash, if certain criteria are met, Laurus may convert the principal and interest of the loans due from the Company to shares of the Company stock. This will reduce the cash flow requirement of the Company in the future. The value of the lower interest payments is offset by Laurus' ability to convert the debt owed into shares of the Company's Stock and the stand-alone Warrants and Options the Company has granted to Laurus.

Increases in deferred financing costs represent costs directly related to obtaining of financing. Deferred financing costs are amortized over the term of the related indebtedness using the effective interest method.

Our indebtedness increased to $2,438,000 as at December 31, 2004 mainly due to the additional borrowings from Laurus Master Fund, Ltd.

We plan to adopt an incentive stock option plan after our registration statement registering the shares issued to Laurus is declared effective by the SEC, but have not yet formulated the parameters of the plan.

On September 30, 2004, we entered into a series of agreements with Laurus whereby we issued to Laurus (i) a secured convertible term note in the amount of $4.5 million, (ii) secured revolving notes in the aggregate maximum amount of $3 million, (iii) a related option to purchase up to 1,499,997 shares of our common stock at a price of two-thirds of a cent per share, and (iv) a seven year warrant to purchase up to 2,250,000 shares of our common stock at a price of $1.15 per share. The term note and revolving notes are secured by all of our assets and the assets of our subsidiaries. Each of the agreements with Laurus is part of an integrated financing structure which, on the whole, management believes to be beneficial to our capital structure.

The principal amount of the term note and revolving notes bear interest at the prime rate plus two percent with a minimum rate of six percent. The minimum monthly payment on the term note and revolving notes are $100,000, plus the monthly interest payment, and may be paid in cash, our common stock or a combination thereof, dependant upon the occurrence of certain criteria. Laurus has the option to convert the entire principal amount of the term note and revolving notes, together with interest thereon into shares of our common stock at a conversion price of $1 ($3 before the 3 for 1 stock split), provided that such conversion does not result in Laurus beneficially owning more than 4.99% of our outstanding shares of common stock. We have agreed to register all of the shares that are issuable upon conversion of the notes or exercise of the option or warrant. For more information regarding the Laurus Financing, see Note 13 and Note 21 in the financial statements as of December 31, 2004.

Our capital requirements have grown since our inception with the growth of our operations and staffing. We expect our capital requirements to continue to increase in the future as we seek to expand our operations. On September 30, 2004, we obtained additional funding through the series of agreements entered into with Laurus, described above. If Laurus converts the term note and/or the revolving notes into shares of the Company's common stock, the Company may avoid or reduce any cash payment required for principal and interest payable. As a result, it will improve our cash flow. However, such conversion by Laurus will dilute the existing shareholders.

Over the next twelve months the Company believes that its existing capital will be sufficient to sustain its operations. Management plans to seek additional capital in the future to fund operations, growth and expansion through additional equity, debt financing or credit facilities. The Company has had early stage discussions with investors about potential investment in the Company into the firm at a future date. No assurance can be made that such financing would be available, and if available it may take either the form of debt or equity. In either case, the financing could have a negative impact on our financial condition and our shareholders. The Company has introduced cost cutting initiatives within the Administration and Project and Selling departments to improve efficiency within the Company and also improve cash flow. The Company has also increased its rates for service by 20 percent to improve gross margins. This is in line with our competitors. The Company also expects to see the benefits of its research and development efforts within the next 12 months as it starts to introduce its own line of customized products to the industry. These products and technologies are expected to improve gross margins. The Company believes that it will be eligible for research and development tax credits at year end for its research and development efforts during the year and these are additional sources of cash flow for the Company. The Company is also negotiating longer credit terms with its suppliers from 45 days to 60 to 75 days. Also, if Laurus chooses to convert its term note and interest into common stock it would improve the Company's cash position.

Recent Accounting Pronouncements - In January 2003, the Financial Accounting Standards Board issued FASB Interpretation No. 46, “Consolidation of Variable Interest Entities.” This interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” addresses consolidation by business enterprises of variable interest entities. FIN 46 explains the concept of a variable interest entity and requires consolidation by the primary beneficiary where there is a controlling financial interest in a variable interest entity or where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The primary beneficiary is the party that is exposed to the majority of the risk or stands to benefit the most from the entity's activities. In December 2003, the FASB released a revised version of FIN 46 (hereafter referred to as FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. Based upon management's evaluation of FIN 46R, the adoption is not expected to have a material effect on the consolidated financial statements.

In April 2004, the Financial Accounting Standards Board issued FASB Staff Position, FSP 129-1, “Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities”. The purpose of this FASB Staff Position is to interpret how the disclosure provisions of Statement 129 apply to contingently convertible securities and to their potentially dilutive effects on EPS. FSP explains that Statement 129 applies to all contingently convertible securities, including those containing contingent conversion requirements that have not been met and are not otherwise required to be included in the computation of diluted EPS in accordance with FASB Statement No. 128, Earnings per share. To comply with paragraph 4 of Statement 129, the significant terms of the conversion features of the contingently convertible security should be disclosed to enable users of financial statements to understand the circumstances of the contingency and the potential impact of conversion. Quantitative and qualitative terms of the contingently convertible security, disclosure of which would be helpful in understanding both the nature of the contingency and the potential impact of conversion. The guidance in this FSP is effective immediately. The Company adopted the disclosure provision required by FAS 129.

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, “Inventory Costs-an Amendment of ARB No. 43, Chapter 4”. The standard adopts the view related to inventories that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the meaning of the term `normal capacity' was clarified. Based on the management's evaluation, the adoption is not expected to have a material effect on the consolidated financial statements.

In December 2004, the Financial Accounting Standard Board issued FASB Statement No. 123R (Revised), “Share-Based Payment which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation”. Statement No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and is effective at the beginning of the first interim or annual period of the registrant's first fiscal year that begins after June 15, 2005. During the year, the Company has not issued any stock to employees.

In September 2004, the Financial Accounting Standard Board issued EITF 04-8, “The Effect of Contingently Convertible Instruments on Diluted Earnings per Share”. This Issue addresses when contingently convertible instruments should be included in diluted earnings per share. The Task Force reached a consensus that contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The Task Force also agreed that the consensus should be applied to instruments that have multiple contingencies if one of the contingencies is a market price trigger and the instrument is convertible or settleable in shares based on meeting a market condition. Based on management's evaluation of EITF 04-8, the adoption is not expected to have a significant effect on the consolidated financial statements.

Commitments

The Company has entered into contracts for certain consulting services providing for monthly payments and is required to repay the principal of its convertible notes and promissory notes due to Laurus and other parties. In addition, the Company has also entered into an operating lease for its vehicles, computer and office equipment. The total minimum annual payments for the next five years are as follows:

		Payments due by Period					
	Total	**2005**	**2006**	**2007**	**2008**	**2009**	**Thereafter**
Convertible notes	$ 4,500,000	$ 900,000	$ 1,200,000	$ 2,400,000	-	-	-
Other Notes Payable	1,774,491	107,823	138,889	27,779	-	-	1,500,000
Operating leases	198,313	123,864	58,911	15,538	-	-	-
Commitments related to consulting agreements	2,801,290	465,384	509,999	557,153	607,099	661,655	-
	$ 9,274,094	$ 1,597,071	$ 1,907,799	$ 3,000,470	$ 607,099	$ 661,655	$ 1,500,000

The figures in the above table do not include interest costs.

DISCUSSION OF CRITICAL ACCOUNTING ESTIMATES

Critical accounting estimates are those that management deems to be most important to the portrayal of our financial condition and results of operations, and that require management's most difficult, subjective or complex judgments, due to the need to make estimates about the effects of matters that are inherently uncertain. We have identified six critical accounting estimates: accounts receivable allowances, goodwill, revenue, inventory, accounting for income taxes and convertible debts.

Accounts receivable allowances are determined using a combination of historical experience, current information and management judgment. Actual collections may differ from our estimates. A 10% increase in the accounts receivable allowance would increase bad debt expense by $10,000.

Goodwill represents the excess of cost over the net tangible and identifiable assets acquired in business combinations and is stated at cost. Goodwill and intangibles with indefinite lives are not amortized but tested for impairment no less frequently than annually. Impairment is measured by comparing the carrying value to fair value using quoted market prices, a discounted cash flow model, or a combination of both.

We derive revenues from contract revenue and services revenue, which include assistance in implementation, integration, customization, maintenance, training and consulting. We recognize revenue for contract and services in accordance with Statement of Position (SOP) 81-1, “Accounting for Certain Construction Type and Certain Production Type Contracts,” and SEC Staff Accounting Bulletin (SAB) 104, “Revenue Recognition,” and EITF 00-21 Accounting for Revenue Arrangements with Multiple Deliverables. Contract revenue consists of fees generated from installation of security systems. Services revenue consists of fees generated by providing monitoring services, preventive maintenance and technical support, product maintenance and upgrades. Monitoring services and preventive maintenance and technical support are generally provided under contracts for terms varying from one to six years. A customer typically prepays monitoring services and preventive maintenance and technical support fees for an initial period, and the related revenue is deferred and generally recognized over the term of such initial period. Rates for product maintenance and upgrades are generally provided under time and material contracts. Revenue for these services is recognized in the period in which the services are provided.

We record inventory at the lower of cost and net realizable value. Cost is determined on a first-in, first-out basis. We write down our inventory for obsolescence, and excess inventories based on assumptions about future demand and market conditions. The business environment in which we operate is subject to customer demand. If actual market conditions are less favorable than those estimated, additional material inventory write-down may be required. A 10% in inventory reserve would increase expenses by $0.1 million.

Income taxes are calculated based on the expected treatment of transactions recorded in the consolidated financial statements. In determining current and deferred components of income taxes, we interpret tax legislation and make assumptions about the timing of the reversal of deferred tax assets and liabilities. If our interpretations differ from those of tax authorities or if the timing of reversals is not as anticipated, the provision for income taxes could increase or decrease in future periods.

The Company reviews the terms of convertible debt and equity instruments we issue to determine whether there are embedded derivative instruments, including the embedded conversion option, that are required to be bifurcated and accounted for separately as a derivative financial instrument. When the economic characteristic and risks of any embedded derivative instrument are not "clearly and closely" related to the risks of the host instrument, the embedded derivative instrument is generally required to be bifurcated and accounted for separately. If the convertible instrument is debt, or has debt-like characteristics, the risks associated with the embedded conversion option are not "clearly and closely" related to that debt host instrument. The conversion option has the risks associated with an equity instrument, not a debt instrument, because its value is related to the value of our common stock. Nonetheless, if the host instrument is considered to be "conventional convertible debt", bifurcation of the embedded conversion option is generally not required. However, if the instrument is not considered to be conventional convertible debt, bifurcation of the embedded conversion option may be required in certain circumstances. Generally, where the ability to physical or net-share settle the conversion option is deemed to be not within the control of the company, the embedded conversion option is required to be bifurcated and accounted for as a derivative financial instrument liability.

In connection with the sale of convertible debt and equity instruments, we may also issue freestanding options or warrants. Additionally, we may issue options or warrants to non-employees in connection with consulting or other services they provide. Although the terms of the options and warrants may not provide for net-cash settlement, in certain circumstances, physical or net-share settlement is deemed to not be within the control of the company and, accordingly, we are required to account for these freestanding options and warrants as derivative financial instrument liabilities, rather than as equity.

Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

When the embedded derivative instrument is to be bifurcated and accounted for as a liability, the total proceeds received are first allocated to the fair value of the bifurcated derivative instrument. If freestanding options or warrants were also issued and will be accounted for as derivative instrument liabilities (rather than as equity), the proceeds are next allocated to the fair value of those instruments. The remaining proceeds, if any, are then allocated to the convertible instrument itself, usually resulting in that instrument being recorded at a discount from its face amount. In circumstances where a freestanding derivative instrument is to be accounted for as an equity instrument, the proceeds are allocated between the convertible instrument and the derivative equity instrument, based on their relative fair values.

The discount from the face value of the convertible debt instrument is amortized over the life of the instrument through periodic charges to income, using the effective interest method.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be required within 12 months of the balance sheet date.

Item 7. Financial Statements

INDEX TO FINANCIAL STATEMENTS

Creative Vistas, Inc.

Consolidated Financial Statements

For the years ended December 31, 2004 and 2003

To the Board of Directors and Shareholders
of Creative Vistas, Inc.

We have audited the accompanying consolidated balance sheet of Creative Vistas, Inc. and its subsidiaries (referred to herein as the "Successor" of the "Company") as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity (deficiency) and other comprehensive income and cash flows for the period from September 30, 2004 to December 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Creative Vistas, Inc. and its subsidiaries as of December 31, 2004 and the results of their operations and their cash flows for the period from September 30, 2004 to December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

As described in Note 3b to the financial statements, the Company restated its consolidated financial statements for the period ended December 31, 2004 to reflect a change in the accounting for the convertible term note and warrants issued in connection with its financing transaction

(signed) BDO Dunwoody LLP

Chartered Accountants
Toronto, Ontario
March 9, 2005 (except for the impact of the restatement described in Note 3b which is as at April 7, 2006)

To the Board of Directors and Shareholders
of Creative Vistas, Inc.

We have audited the accompanying balance sheet of Creative Vistas, Inc. (referred to herein as the "Predecessor") as of December 31, 2003 and the related statements of operations, stockholders' equity (deficiency) and other comprehensive income and cash flows for the period from January 1, 2004 to September 29, 2004 and for the year ended December 31, 2003. These financial statements are the responsibility of the Predecessor's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Predecessor's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Predecessor as of December 31, 2003 and the results of its operations and its cash flows for the period from January 1, 2004 to September 29, 2004 and for the year ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the financial statements, the Predecessor adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002.

(signed) BDO Dunwoody LLP

Chartered Accountants
Toronto, Ontario
February 24, 2005

Creative Vistas, Inc.
Consolidated Balance Sheets

December 31	2004	2003
Assets		
Current Assets		
Cash and bank balances	$ **377,677**	$ -
Accounts receivable, net of allowance for doubtful accounts $ 33,333 (2003-$105,671)	**2,640,973**	2,113,027
Income tax recoverable (Note 11)	**326,834**	-
Inventory, net of reserve of $nil (2003-$nil)	**551,477**	714,758
Prepaid expenses (Note 5)	**120,990**	22,845
Due from related parties (Note 6)	**2,129**	3,514
Deferred income taxes (Note 11)	**-**	20,517
	4,020,080	2,874,661
Property and equipment, net of depreciation (Note 7)	**822,660**	811,780
Goodwill	**503,900**	-
Restricted cash (Note 4)	**1,250,000**	-
Deferred financing costs, net (Note 8)	**1,050,986**	-
Customer list (Note 9)	**8,334**	11,570
Deferred income taxes (Note 11)	**34,640**	1,196
	$ 7,690,600	$ 3,699,207
Liabilities and Shareholders' Equity (Deficiency)		
Current Liabilities		
Bank indebtedness (Note 10)	$ **2,459,576**	$ 633,749
Accounts payable	**1,418,297**	1,617,231
Accrued salaries and benefits	**142,070**	202,981
Accrued commodity taxes	**130,217**	91,641
Accrued liabilities	**167,104**	45,936
Deferred income	**190,388**	101,059
Deferred income taxes (Note 11)	**24,997**	-
Income taxes payable (Note 11)	**-**	40,011
Current portion of convertible notes (Note 13)	**900,000**	-
Current portion of other notes payable (Note 14)	**107,823**	-
Mortgage loan (Note 15)	**-**	236,953
Due to related parties (Note 6)	**4,865**	117,757
	5,545,337	3,087,318
Convertible notes (Note 13)	**2,320,330**	-
Notes payable to related parties (Note 6)	**1,500,000**	-
Other notes payable (Note 14)	**166,668**	-
Due to related parties (Note 6)	**192,391**	129,568
Derivative Financial Instruments (Note 13)	**3,672,743**	-
	13,397,469	3,216,886
Shareholders' equity (deficiency)		
Share capital		
Authorized		
100,000,000 no par value common shares		
50,000,000 shares of preferred stock		
Issued		
30,135,000 Common shares (2003-30,000,000)	**-**	2
Accumulated paid-in capital	**(2,087,784)**	-
Accumulated other comprehensive income	**(13,709)**	72,939
Accumulated retained earnings (deficit)	**(3,605,376)**	409,380
	(5,706,869)	482,321
	$ 7,690,600	$ 3,699,207

The accompanying notes are an integral part of these financial statements

Creative Vistas, Inc.
Consolidated Statement of Stockholders' Equity (Deficiency) and Other Comprehensive Income

	Shares	Amount	Additional paid-in capital	Accumulated retained earnings (deficit)	Accumulated other comprehensive	Total Stockholders' Equity (deficiency)
Predecessor						
Balance, December 31, 2002	30,000,000	$ 71	$ -	$ 246,623	$ 5,363	$ 252,057
Redemption during the year		(71)	-	-	-	(71)
Issuance of common shares		2	-	-	-	2
Net Income	-	-	-	162,757	-	162,757
Translation adjustment	-	-	-	-	67,576	67,576
Balance, December 31, 2003	30,000,000	2	-	409,380	72,939	482,321
Net loss	-	-	-	(765,653)	-	(765,653)
Translation adjustment	-	-	-	-	(27,038)	(27,038)
Balance, September 29, 2004	30,000,000	2	-	(356,273)	45,901	(310,370)
Successor						
Continuing shareholders basis adjustment	-	(2)	(2,796,100)	-	-	(2,796,102)
Stock-based compensation to non-employees	135,000	-	149,000	-	-	149,000
Warrants related to financing	-	-	559,316	-	-	559,316
Net loss	-	-	-	(3,249,103)	-	(3,249,103)
Translation adjustment					(59,610)	(59,610)
Balance, December 31, 2004	30,135,000	$ -	$ (2,087,784)	$ (3,605,376)	$ (13,709)	(5,706,869)

The accompanying notes are an integral part of these financial statements

Creative Vistas, Inc.
Consolidated Statement of Operations

	Successor	Predecessor	
	Period from September 30, 2004 to December 31, 2004	**Period from January 1, 2004 to September 29, 2004**	**Year Ended December 31, 2003**
Contract and service revenue			
Contract	**$ 2,177,587**	**$ 5,268,773**	$ 8,372,470
Service	**228,126**	**783,184**	878,874
	2,405,713	**6,051,957**	9,251,344
Cost of sales			
Contract	**1,669,616**	**3,689,980**	5,328,814
Service	**105,620**	**418,563**	472,894
	1,775,236	**4,108,543**	5,801,708
Gross margin	**630,477**	**1,943,414**	3,449,636
Operating expense	**314,835**	**1,087,741**	1,337,895
Project			
Selling	**269,756**	**733,138**	906,776
General and administrative	**601,439**	**1,058,142**	951,567
	1,186,030	**2,879,021**	3,196,238
Income (loss) from operations	**(555,553)**	**(935,607)**	253,398
Interest expenses and other expenses	**109,869**	**23,550**	24,868
Interest (Note 6, 13, 14 and 15)			
Amortization of deferred charges (Note 8)	**125,379**	-	-
Derivative instruments (Note 13)	**2,414,720**		
	2,649,968	**23,550**	24,868
Income (loss) before income taxes	**(3,205,521)**	**(959,157)**	228,530
Income taxes (Note 11)	**43,582**	**(193,504)**	65,773
Net income (loss)	**(3,249,103)**	**(765,653)**	162,757
Other comprehensive income (loss):			
Foreign currency translation adjustment	**(59,610)**	**(27,038)**	67,576
Comprehensive income (loss)	**$ (3,308,713)**	$ **(792,691)**	$ 230,333
Basic weighted-average shares (Note 18)	**30,014,753**	**30,000,000**	30,000,000
Basic earnings per share (Note 18)	**$ (0.11)**	$ **(0.03)**	$ 0.01
Diluted earnings per share (Note 18)	**$ (0.11)**	$ **(0.03)**	$ 0.01

Creative vistas, Inc.
Consolidated Statement of Cash Flows

	Successor	Predecessor	
	Period from September 30, 2004 to December 31, 2004	**Period from January 1, 2004 to September 29, 2004**	**Year Ended December 31, 2003**
Cash provided by (used in)			
Operating activities			
Net income (loss)	**$ (3,249,103)**	**$ (765,653)**	$ 162,757
Adjustments to reconcile net income (loss) to net cash (loss) to net cash provided by (used in)			
Operating activities			
Depreciation of capital assets	**13,640**	**37,589**	51,520
Amortization of customer lists	**1,025**	**2,823**	3,568
Amortization of deferred financing cost conversion features	**125,379**	**-**	-
Derivative instruments	**2,414,720**	-	-
Bad debt expenses	**34,830**	**1,055**	
Deferred income taxes	**74,538**	**(125,740)**	22,120
Stock-based compensation expenses	**185,058**	**-**	-
Changes in non-cash working capital balance			
Accounts receivable	**(324,289)**	**(60,518)**	(357,480)
Inventory	**23,192**	**178,160**	(113,174)
Prepaid expenses	**4,991**	**(2,891)**	(16,233)
Deferred income taxes	**75,936**	-	(6,817)
Accounts payable and other accrued liabilities	**(386,102)**	**52,095**	(89,727)
Deferred revenue	**(167,798)**	**227,503**	(102,023)
Income taxes payable	**(249,642)**	**(105,043)**	(31)
	(1,423,625)	**(560,620)**	(445,520)
Investing activities			
Due from related parties	**1,640**	-	1,333
Purchase of property and equipment	-	**(967)**	(39,584)
Investment in subsidiary	**(1,800,079)**	-	-
	(1,798,439)	**(967)**	(38,251)
Financing activities			
Increase in bank indebtedness	**1,334,719**	**394,729**	354,950
Deferred financing costs	**(751,289)**	-	-
Due to related parties	**5,182**	**(67,968)**	146,932
Notes payable	-	**248,006**	-
Convertible notes	**3,250,000**	-	-
Repayment of mortgage principal	**(237,463)**	**(13,180)**	(18,042)
Redemption of common shares	-	-	(71)
Issuance of common shares	-	-	2
	3,601,149	**561,587**	483,771

Effect of foreign exchange rate changes on cash	**(1,408)**	-	-
Net change in cash and cash equivalents	**377,677**	-	-
Cash and cash equivalents, beginning of year	-	-	-
Cash and cash equivalents, end of year	**$ 377,677**	**$ -**	$ -
Supplemental Cash Flow Information			
Cash paid for interest	**$ 212,532**	**$ 236,082**	$ 63,409
Cash paid for income taxes	**$ -**	**$ 37,278**	$ 7,135

1. Nature of Business

On September 30, 2004 the ultimate stockholders of AC Technical Systems Ltd. ("AC Technical") entered into a series of transactions to acquire a controlling stock interest in Creative Vistas, Inc. ("CVAS"). On September 30, 2004, the CVAS' stockholders entered into a Common Stock Purchase Agreement (the "Agreement") with Sayan Navaratnam, Dominic Burns, Randy Stern and Malar Trust, Inc. (a corporation controlled by Sayan Navaratnam). Pursuant to the Agreement, Miller Capital Corporation and Tudor Investments LTD agreed to sell 28,500,000 shares of CVAS to Sayan Navaratnam, Dominic Burns, Randy Stern and Malar Trust, Inc. for cash consideration of $300,000.

Prior to the consummation of the Agreement, CVAS completed a series of transactions resulting in AC Technical becoming a subsidiary of CVAS. On September 22, 2004, CVAS incorporated a new Ontario company, AC Technical Acquisition Corp.("AC Acquisition") controlled by CVAS through a voting agreement with Brent Swanick. CVAS owns 50 VFV shares (voting fixed shares) and 100 NVE shares (non-voting equity). Brent Swanick owns the remaining 50 VFV shares. The total issued share capital was $100 ($1 for each VFV share). There was no par value for the NVE shares; AC Acquisition is a subsidiary of Creative Vistas, Inc. Subsequently, on September 29, 2004, pursuant to a Stock Purchase Agreement with The Burns Trust, The Navaratnam Trust and AC Technical, AC Acquisition acquired all of the issued and outstanding shares of AC Technical form The Burns Trust and The Navaratnam Trust for consideration consisting of promissory notes in the aggregate amount of $3,300,000. AC Technical became a subsidiary of CVAS.

On September 30, 2004, concurrent with the consummation of the Agreement, the Registrant entered into a number of agreements with Laurus Master Fund, Ltd. ("Laurus") for (i) a secured convertible term note (the "Note") in the amount of $4.5 million and (ii) secured revolving notes (together with the Term Note, the "Notes") in the aggregate maximum amount of $3 million, (iii) a related options to purchase up to 1,499,997 shares of our common stock at a price of two-thirds of a cent per share (the "Option"), and (iv) a seven year warrant to purchase up to 2,250,000 shares of our common stock at a price of $1.15 per share (the "Warrant"). The Notes are secured by all of the assets of CVAS and its subsidiaries.

CVAS loaned the proceeds of the Notes to AC Acquisition. AC Acquisition used the funds received to repay an aggregate of $1.8 million of the principal amount of the promissory notes and to pay transaction costs. The inter-company balance is subject to interest at a negotiated interest rate.

After the completion of the business acquisition and leverage buyout transactions AC Technical's previous ultimate stockholders Sayan Navaratnam and Dominic Burns controlled 56% and 37% respectively of the common shares of CVAS. Consequently, the acquisition of the controlling stock interest in the non-operating public shell corporation, CVAS (the legal acquirer), by the shareholders of AC Technical, has been accounted for as a business acquisition and leverage buyout under EITF 88-16.

On September 30, 2004 the previous management and Directors of CVAS resigned and in addition to being appointed to the Board of Directors Sayan Navaratnam and Dominic Burns were appointed Chief Executive Officer and President respectively. Additionally, AC Technical's Chief Financial Officer, Heung Hung Lee, was appointed Chief Financial Officer of CVAS.

A.C. Technical Systems Ltd. a corporation incorporated under the laws of the Province of Ontario, is engaged in the engineering, design, installation, integration and servicing of various types of security systems. The Company operates under the trade name of AC Technical Systems.

2. Stock Splits

On December 23, 2004, the Company's board of directors declared a three-for-one stock split on the shares of the Company's common stock. Each shareholder of record on December 17, 2004, received two additional shares of common stock for each share of common stock then held. The Company retained the current par value of $Nil per share for all shares of common stock. All references in the financial statements to the number of shares outstanding, per share amounts, and stock option data of the Company's common stock have been restated to reflect the effect of the stock split for all periods presented.

3a. Summary of Significant Accounting Polices

Basis of Presentation

The accompanying financial statements as at and for the fiscal period ended December 31, 2004 have been prepared by management from the historical financial records of A.C. Technical Systems Ltd. in accordance with United States generally accepted accounting principles (“GAAP”) applicable to the respective periods.

The consolidated balance sheets as at December 31, 2004 and statement of operations and cash flows for the period from September 30, 2004 to December 31, 2004 include the accounts of CVAS, AC Acquisition and AC Technical. The Company's balance sheet as at December 31, 2003 and statement of operations and cash flows for the periods ended September 29, 2004 and December 31, 2003 include the accounts of AC Technical. No financial statements are presented for the shell company, Creative Vistas, Inc., prior to the business acquisition and leverage buyout transactions because, prior to the September 30, 2004 transaction, its assets and results were immaterial. All material inter-company accounts, transactions and profits have been eliminated.

Cash and Cash Equivalents

The Company considers all cash and highly liquid investments purchased with an initial maturity of three months or less to be cash and cash equivalents.

The Company maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risks on cash and cash equivalents.

The Company's cash and cash equivalents were $377,677 and $Nil as at December 31, 2004 and 2003. During the fiscal periods ended December 31, 2004 and 2003 the Company experience net cash outflows from the operating activities. During these fiscal periods the Company financed its operations through borrowings with a financial institution and loans from related and third parties. All incoming cash is deposited into the bank account with the operating line facility in order to reduce interest payments. Therefore, there are no cash balances for fiscal year ended December 31, 2003.

Accounts Receivable

The Company extends credit to its customers based upon a written credit policy. Accounts receivable are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the Company's best estimate for the amount of probable credit losses in the Company's existing accounts receivable. The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends, and other information. Receivable balances are reviewed on an aged basis and account balances are charged off against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Investment Tax Credits

Investment tax credits are accrued when qualifying expenditures are made and there is reasonable assurance that the credits will be realized. Investment tax credits earned with respect to current expenditures for qualified research and development activities are included in the statement of operations as a reduction of expenses. Tax credits earned with respect to capital expenditures are applied to reduce the cost of the related capital assets.

Research and Development Expenditures

Research and development costs (other than capital expenditures) are expensed as incurred. Expenditures are reduced by any related investment tax credits.

Inventory

Inventory consists of materials and supplies and is stated at the lower of cost and market value. Cost is generally determined on the first in, first out basis. The inventory is net of estimated obsolescence, and excess inventory based upon assumptions about future demand and market conditions.

Property and Equipment

Property and equipment is stated at original cost. Expenditures for improvements that significantly add to productive capacity or extend the useful life of an asset are capitalized. Expenditures for maintenance and repairs are expensed when incurred. Depreciation per annum is computed over the estimated useful life as follows:

Industrial condominium 4% declining balance basis
Equipment 20% declining balance basis
Furniture and fixtures 20% declining balance basis
Computer equipment 30% declining balance basis

Customer List

Customer list represents the acquisition cost of an acquired customer list and is recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over the period of expected benefit of 5 years. The Company reviews the revenues from the customer list at each balance sheet date to determine whether circumstances indicate that the carrying amount of the asset should be assessed.

Long-Lived Assets

The Company reviews its long-lived assets for impairment at each balance sheet date and whenever events or changes in circumstances indicate that the carrying amount of an asset should be assessed. To determine if an impairment exists, the Company estimates the future undiscounted cash flows expected to result from the use of the asset being reviewed for impairment. If the sum of these expected future cash flows is less than the carrying amount of the asset, the Company recognizes an impairment loss in accordance with SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. The amount of the impairment recognized is determined by estimating the fair value of the assets and recording a loss for the excess of the carrying value over the fair value.

Goodwill

Goodwill is evaluated for potential impairment on an annual basis or whenever events or circumstances indicate that an impairment may have occurred. Statement of Accounting Standards No. 142, “Goodwill and Other Intangible Assets”, (“SFAS No. 142”) requires that goodwill be tested for impairment using a two-step process. The first step of the goodwill impairment test, used to identify potential impairment, compares the estimated fair value of the reporting unit containing goodwill with the related carrying amount. If the estimated fair value of the reporting unit exceeds its carrying amount, the reporting unit's goodwill is not considered to be impaired and the second step of the impairment test is unnecessary. If the reporting unit's carrying amount exceeds its estimated fair value, the second step test must be performed to measure the amount of the goodwill impairment loss, if any. The second step test compares the implied fair value of the reporting unit's goodwill, determined in the same manner as the amount of goodwill recognized in a business combination, with the carrying amount of such goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of the goodwill so calculated, an impairment loss is recognized in an amount equal to the excess.

Deferred Financing Costs

Deferred financing costs represent costs directly related to obtaining of financing. Deferred financing costs are amortized over the term of the related indebtedness using the effective interest method.

Continuing Shareholders' Basis Adjustment

AC Technical was acquired by AC Acquisition on September 30, 2004 as described in Notes 1 and 19. This transaction was accounted for as a purchase in accordance with Standards of Financial Accounting Standards No. 141 “Business Combinations”. As a result of a 87% continuing ownership interest in the Company by certain shareholders (“Continuing Shareholders”), 13% of the purchase price was allocated to the assets and liabilities acquired at their respective fair values with the remaining 87% ownership interest recorded at the Continuing Shareholders' historical book values as of the date of acquisition in accordance with Issue No. 88-16 of the Emerging Issues Task Force of the Financial Accounting Standards Board “Basis in Leveraged Buyout Transactions”(“EITF 88-16”). As a result of the carryover of the Continuing Shareholders' historical basis, shareholders' equity of the Company has been reduced by $2,796,102 with a corresponding reduction in the amount assigned to goodwill. The balance of continuing shareholders basis adjustments was equal to 87% of the total consideration and net of carrying value and any required transaction costs of AC Technical. It represents the lower of the residual interest in the old company and the new company.

Issuance of Equity Instruments for Services

Stock-based awards to non-employees are accounted for based on the fair value of the goods and services or the fair value of the equity instrument at the time of issuance, whichever is more reliably measurable in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation, and Emerging Issues Task Force ("EITF") Issue No. 96-18, Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods and Services.

Revenue Recognition

Contract Revenue

Software Related Services - Software related services include services to customize or enhance the software so that the software performs in accordance with specific customer requirements. As these services are essential to provide the required functionality, revenue from these arrangements is recognized in accordance Statement of Position (SOP) 81-1, "Accounting for Certain Construction Type and Certain Production Type Contracts, using either the percentage-of-completion method or the completed contract method. The percentage-of-completion method is used when the required services are quantifiable, based on the estimated number of labor hours necessary to complete the project, and under that method revenues are recognized using labor hours incurred as the measure of progress towards completion but is limited to revenue that has been earned by the attainment of any milestones included in the contract. The completed contract method is used when the required services are not quantifiable, and under that method revenues are recognized only when we have satisfied all of our product and/or service delivery obligations to the customer.

Security Systems - Security systems revenue consists of fees generated from consulting, audit, review, planning, engineering and design, supply of hardware systems installation and project management. Revenue from contracts where performance extends beyond one or more accounting periods is recognized in accordance with SOP 81-1, SEC Staff Accounting Bulletin 104, "Update of Codification of Staff Accounting Bulletins" and EITF 00-21, "Revenue Arrangements with Multiple Deliverables". The recognition of revenue reflects the degree of completeness based upon project drawings, project schedules, progress of actual installation and are further validated by visual observations by product managers, quality inspectors and construction advisors, if applicable. When the current estimated costs to complete indicate a loss, such losses are immediately recognized for accounting purposes. Some projects have the equipment and installation as separate elements specified in the contracts. The revenue is recognized when each element has been satisfied in accordance with SOP81-1 and SEC Staff Accounting Bulletin 104, which are the delivery of the equipment and completion of installation process. The fair value of each element was based on the price charged when it is sold on a standalone basis.

For contracts of shorter duration, revenue is generally recognized when services are performed. Contractual terms may include the following payment arrangements: fixed fee, full-time equivalent, milestone, and time and material. In order to recognize revenue, the following criteria must be met:

- Signed agreement -- The agreement must be signed by the customer.
- Fixed Fee -- The signed agreement must specify the fees to be received for the services.
- Delivery has occurred -- Delivery is substantiated by time cards and where applicable, supplemented by an acceptance from the customer that milestones as agreed in the statement have been met.
- Collectibility is probable -- The Company conducts a credit review for significant transactions at the time of the engagement to determine the credit-worthiness of the customer. Collections are monitored over the term of each project, and if a customer becomes delinquent, the revenue may be deferred.

Service Revenue

Service revenue consists of fees generated by providing monitoring services, preventive maintenance and technical support, product maintenance and upgrades. Monitoring services and preventive maintenance and technical support are generally provided under contracts for terms varying from one to six years. A customer typically prepays monitoring services and preventive maintenance and technical support fees for an initial period, and the related revenue is deferred and generally recognized over the term of such initial period. Rates for product maintenance and upgrades are generally provided under time and material contracts. Revenue for these services is recognized in the period in which the services are provided

Warranty

The Company carries a reserve based upon historical warranty claims experience. Additionally, warranty accruals are established on the basis of anticipated future expenditures as specific warranty obligations are identified and they are charged against the accrual. Expenditures exceeding such accruals are expensed direct to cost of sales.

Loss per share

The Company applies Statement of Financial Accounting Standards No. 128, Earnings Per Share (FAS 128). Basic loss per share ("LPS") is computed using the weighted average number of common shares outstanding during the period. Diluted LPS is computed using the weighted average number of common and dilutive potential common shares outstanding during the period. Dilutive potential common shares consist of common stock issuable upon exercise of stock options and warrants and conversion of debt using the treasury stock method. No adjustments to earnings were made for purposes of per share calculations. The Company has reported a net loss for the year ended December 31, 2004. As a result, 1,499,999 and 2,989,500 and 6,937,929 shares of common stock, which may be issued upon exercise of options and warrants respectively, have been excluded from the calculation of diluted loss per share, for the year ended December 31, 2004, because their inclusion would be anti-dilutive. There were no options or warrants granted in 2003.

Financial Instruments

The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value because of the short maturities of those instruments. Based on borrowing rates currently available to the Company for loans with similar terms, the carrying value of convertible notes and notes payable are also approximate fair value except notes payable due to The Burns Trust and the Navaratnam Trust and related party balances for which the fair value is not determinable.

We review the terms of convertible debt and equity instruments we issue to determine whether there are embedded derivative instruments, including the embedded conversion option, that are required to be bifurcated and accounted for separately as a derivative financial instrument. When the risks and rewards of any embedded derivative instrument are not "clearly and closely" related to the risks and rewards of the host instrument, the embedded derivative instrument is generally required to be bifurcated and accounted for separately. If the convertible instrument is debt, or has debt-like characteristics, the risks and rewards associated with the embedded conversion option are not "clearly and closely" related to that debt host instrument. The conversion option has the risks and rewards associated with an equity instrument, not a debt instrument, because its value is related to the value of our common stock. Nonetheless, if the host instrument is considered to be "conventional convertible debt", bifurcation of the embedded conversion option is generally not required. However, if the instrument is not considered to be conventional convertible debt, bifurcation of the embedded conversion option may be required in certain circumstances. Generally, where the ability to physical or net-share settle the conversion option is deemed to be not within the control of the company, the embedded conversion option is required to be bifurcated and accounted for as a derivative financial instrument liability.

In connection with the sale of convertible debt and equity instruments, we may also issue freestanding options or warrants. Additionally, we may issue options or warrants to non-employees in connection with consulting or other services they provide. Although the terms of the options and warrants may not provide for net-cash settlement, in certain circumstances, physical or net-share settlement is deemed to not be within the control of the company and, accordingly, we are required to account for these freestanding options and warrants as derivative financial instrument liabilities, rather than as equity.

Derivative financial instruments are initially measured at their fair value. For derivative financial instruments that are accounted for as liabilities, the derivative instrument is initially recorded at its fair value and is then re-valued at each reporting date, with changes in the fair value reported as charges or credits to income. For option-based derivative financial instruments, we use the Black-Scholes option pricing model to value the derivative instruments.

In circumstances where the embedded conversion option in a convertible instrument is required to be bifurcated and there are also other embedded derivative instruments in the convertible instrument that are required to be bifurcated, the bifurcated derivative instruments are accounted for as a single, compound derivative instrument.

When the embedded derivative instrument is to be bifurcated and accounted for as a liability, the total proceeds received are first allocated to the fair value of the bifurcated derivative instrument. If freestanding options or warrants were also issued and will be accounted for as derivative instrument liabilities (rather than as equity), the proceeds are next allocated to the fair value of those instruments. The remaining proceeds, if any, are then allocated to the convertible instrument itself, usually resulting in that instrument being recorded at a discount from its face amount. In circumstances where a freestanding derivative instrument is to be accounted for as an equity instrument, the proceeds are allocated between the convertible instrument and the derivative equity instrument, based on their relative fair values.

The discount from the face value of the convertible debt instrument is amortized over the life of the instrument through periodic charges to income, using the effective interest method.

The classification of derivative instruments, including whether such instruments should be recorded as liabilities or as equity, is re-assessed at the end of each reporting period. Derivative instrument liabilities are classified in the balance sheet as current or non-current based on whether or not net-cash settlement of the derivative instrument could be expected within 12 months of the balance sheet date.

Credit Risk

The Company's financial assets that are exposed to credit risk consist primarily of cash and equivalents and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of customers serviced by the Company and their generally short payment terms.

Foreign Currency Translation

The Company maintains its accounts in United States dollars and in Canadian dollars for Canadian-based subsidiaries. The financial statements have been translated into United States dollars in accordance with SFAS. No. 52, Foreign Currency Translation.

All balance sheet accounts have been translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The gains and losses resulting from the changes in exchange rates from year to year have been reported separately as a component of comprehensive income. The gain and losses resulting from any inter-company balances with different functional currencies would be recognized in statement of operations.

Income Taxes

The Company accounts for income taxes using the asset and liability approach in accordance with SFAS No. 109, Accounting for Income Taxes. The asset and liability approach requires the recognition of deferred tax liabilities and assets for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The provision for income taxes consists of an amount for the taxes currently payable and a provision for the tax consequences deferred to future periods.

Comprehensive Income

Comprehensive income equals net income plus other comprehensive income. Other comprehensive income refers to foreign currency translation adjustments.

Accounting Estimates

The Company prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of the relevant facts and circumstances as of the date of the financial statements. Actual results may differ from the estimates and assumptions used in preparing the accompanying financial statements.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. ("FIN") 46, "Consolidation of Variable Interest Entities." This interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," addresses consolidation by business enterprises of variable interest entities. FIN 46 explains the concept of a variable interest entity and requires consolidation by the primary beneficiary where there is a controlling financial interest in a variable interest entity or where the variable interest entity does not have sufficient equity at risk to finance its activities without additional subordinated financial support from other parties. The primary beneficiary is the party that is exposed to the majority of the risk or stands to benefit the most from the entity's activities. In December 2003, the FASB released a revised version of FIN 46 (hereafter referred to as FIN 46R) clarifying certain aspects of FIN 46 and providing certain entities with exemptions from the requirements of FIN 46. Based upon management's evaluation of FIN 46R, the adoption is not expected to have a material effect on the consolidated financial statements.

In April 2004, the Financial Accounting Standards Board (FASB) issued FASB Staff Position ("FSP") FSP 129-1, "Disclosure of Information about Capital Structure, Relating to Contingently Convertible Securities". The purpose of this FASB Staff Position is to interpret how the disclosure provisions of Statement 129 apply to contingently convertible securities and to their potentially dilutive effects on EPS. FSP explains that Statement 129 applies to all contingently convertible securities, including those containing contingent conversion requirements that have not been met and are not otherwise required to be included in the computation of diluted EPS in accordance with FASB Statement No. 128, Earnings per share. To comply with paragraph 4 of Statement 129, the significant terms of the conversion features of the contingently convertible security should be disclosed to enable users of financial statements to understand the circumstances of the contingency and the potential impact of conversion. Quantitative and qualitative terms of the contingently convertible security, disclosure of which would be helpful in understanding both the nature of the contingency and the potential impact of conversion. The guidance in this FSP is effective immediately. The Company adopted the disclosure provision required by FAS 129.

In November 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 151, “Inventory Costs-an Amendment of ARB No. 43, Chapter 4”. The standard adopts the view related to inventories that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. Additionally, the meaning of the term `normal capacity' was clarified. Based on the management's evaluation of EITF 04-8, the adoption is not expected to have a material effect on the consolidated financial statements.

In December 2004, the Financial Accounting Standard Board (FASB) issued FASB Statement No. 123R (Revised), “Share-Based Payment which is a revision of FASB Statement No. 123, Accounting for Stock-Based Compensation”. Statement No. 123(R) supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees, and amends FASB Statement No. 95, Statement of Cash Flows. Statement No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values and is effective at the beginning of the first interim or annual period of the registrant's first fiscal year that begins after December 15, 2005. During the year, the Company has not issued any stock to employees.

In September 2004, the Financial Accounting Standard Board (FASB) issued EITF 04-8, “The Effect of Contingently Convertible Instruments on Diluted Earnings per Share”. This Issue addresses when contingently convertible instruments should be included in diluted earnings per share. The Task Force reached a consensus that contingently convertible instruments should be included in diluted earnings per share (if dilutive) regardless of whether the market price trigger has been met. The Task Force also agreed that the consensus should be applied to instruments that have multiple contingencies if one of the contingencies is a market price trigger and the instrument is convertible or settleable in shares based on meeting a market condition. Based on management's evaluation of EITF 04-8, the adoption is not expected to have a significant effect on the consolidated financial statements.

3b Restatement

We have amended the annual reports for the year ended December 31, 2004 and quarterly reports of the quarters ended September 30, 2004, March 31, 2005 and June 30, 2005 to reflect the accounting for the convertible term note, warrants and options and related registration rights in connection with our financing transaction entered into with Laurus Master Funds, Ltd. on September 30, 2004. We are currently responding to comments provided by the Staff of the Securities and Exchange Commission in connection with our registration statement on Form SB-2. These comments affect our past filings and may affect this filing. The most recent comments relate to our accounting for certain convertible debt that have warrants, options, and related registration rights. We intend to file a formal response to the SEC's accounting comments related to the Company's registration statement on Form SB-2, and in this filing, we have treated the warrants and options that have registration rights associated with them as derivative liabilities. In addition, we have also received comments from the Securities and Exchange Commission regarding whether our convertible debt is a "conventional convertible" instrument. We have responded to the Staff's comments, explaining why, at the time they were issued, we believed that this instrument was "conventional". Upon further consideration of the definition of conventional convertible debt under EITF 00-19 “Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in a Company's own stock” [Missing Graphic Reference] , we concluded that our convertible debt was not a “conventional convertible” instrument. As a result, we were required to bifurcate the conversion features of some or all of these convertible instruments and record them as derivative liabilities and then mark the liabilities to their fair value at each reporting date.

As a result of the restatement, warrants and options have been reclassified as liabilities. The warrants and options had previously been measured based on a relative fair method and are now measured at their full fair value and will be marked to market on each balance sheet date.

Embedded derivatives contained in the convertible debenture and the secured line of credit are now bifurcated from the host debt and measured at fair value and classified as liabilities. These embedded derivatives will also be marked to market on each balance sheet date.

The resulting debt discount will be amortized over the period of the convertible debt and the secured line of credit as interest and other expenses in our accompanying consolidated statements of operations.

Accordingly, the effect on our accompanying consolidated balance sheet as of December 31, 2004 was an increase in liabilities by $5,564,912 and corresponding increase in stockholders' deficiency of $5,564,912. The effect on our consolidated statements of operations for the quarter ended September 30, 2004 was an increase in our net loss of $1,991,561. Basic and diluted earning per share for the year ended December 31, 2004 changed from loss per share $0.04 to earning per share of $0.11.

4. Restricted Cash

The balance at December 31, 2004 includes $1,250,000 which was deposited in a restricted bank account. Pursuant to the Securities Purchase Agreement between the Laurus Master Fund ("Laurus") and the Company and a restricted account agreement entered into by the Company, Laurus and a US bank, the $1,250,000 was deposited into a restricted account for the benefit of Laurus as security for the Company obligations under the Purchase Agreement and the Related Agreements. The restricted account shall be maintained at the Bank until the receipt of confirmation from the Securities and Exchange Commission that an effective Registration Statements under the Securities Act of 1933 has become effective or certain provision set out in the agreement are achieved by the Company to Laurus. The ability to use the funds is subject to limitations and restrictions. Subsequent to year ended, Laurus has released $125,000 from the restricted account to the Company for the secured promissory note issued by dataBahn, Inc. (also see Note 20).

5. Prepaid expenses

The balance consists of the following:	2004	2003
Consulting and professional fees	$ 98,182	$ -
Refundable deposit	22,808	22,845
	$ 120,990	$ 22,845

6. Related Party Transactions

Balances due from related parties are as follows:

	2004	2003
Balance due from a company controlled by the president, non-interest bearing and due on demand	$ 2,129	$ 1,971
Balance due from the president of the company, non-interest bearing and due on demand	-	1,543
	$ 2,129	$ 3,514
Balances due to related parties are as follows:		
Advances from the Chief Executive Officer (CEO) of the Company, non-interest bearing with no fixed terms of repayment. The loan is subordinated to the Laurus loan	$ 56,736	$ 34,709
Subordinated loan - advances from the CEO and is secured by a promissory note, a third ranking general security agreement, assignment of insurance policy, a second mortgage on the industrial condominium up to $269,955, personal guarantee of the president and his spouse up to $539,910, and a collateral second mortgage on the president's principal residence up to $77,130, bearing interest at 6% per annum, repayable in blended monthly payments of $10,155. The loan should be matured on February 14, 2005. However, the loan is subordinated to Laurus with no fixed terms of repayment and no interest will be charged from September 30, 2004. Total interest for the year was $4,328 (2003: $8,277).	54,055	136,987
Loan payable to a company controlled by the president's spouse, non-interest bearing and due on demand	4,865	938
Loan payable to the president of the Company, non-interest bearing with no fixed terms of repayment. The loan is subordinated to Laurus	81,600	74,691
	197,256	247,325
Less current portion	4,865	117,757
	$ 192,391	$ 129,568
Note payable to related parties are as follows:		
Note payable to the Navaratnam Trust (the CEO is one of the beneficiaries of the trust), bearing interest at 3% per annum with no fixed terms of repayment. The loan is subordinated to the Laurus loan. Total interest for the year was $5,625 (2003: $Nil)	$ 750,000	$ -
Note payable to the Burns Trust (the president is one of the beneficiaries of the trust), bearing interest at 3% per annum with no fixed terms of repayment. The loan is subordinated to the Laurus loan Total interest for the year was $5,625 (2003: $Nil)	750,000	-
	$ 1,500,000	$ -

During the year, $243,000 (2003 - $134,000) in consulting fees and $4,328 (2003 - $8,277) in interest related to the subordinated loan were paid to the Companies controlled by the CEO. In addition, $81,000 (2003 - $Nil) in consulting fees were paid to the Company controlled by the president's spouse.

In September 2004, the Company issued two promissory notes with an aggregate principal amount of $3,300,000. On September 30, 2004, the Company repaid an aggregate of $1,800,000 of the principal balance. The outstanding principal bears interest at 3% per annum with no fixed terms of repayment and payable on demand. However, pursuant to the Laurus Financing, these notes have been subordinated to the Company's obligations to Laurus. The notes each with an amount of $750,000 are due to The Burns Trust (the president is one of the beneficiaries of the trust) and the Navaratnam Trust (the CEO is one of the beneficiaries of the trust), respectively. Total interest payable for the year to The Burns Trust and The Navaratnam Trust was $11,250.

7. Property and Equipment

	2004		2003	
	Cost	**Accumulated Depreciation**	**Cost**	**Accumulated Depreciation**
Land	$ 82,713	-	$ 76,556	-
Industrial condominium	713,328	69,070	660,234	39,083
Equipment	66,670	28,635	61,708	17,702
Furniture and fixtures	53,628	23,601	49,636	14,896
Computer equipment	75,524	47,897	68,912	33,585
	$ 991,863	169,203	$ 917,046	105,266
Net book value		$ 822,660		$ 811,780

8. Deferred Financing Costs, Net

Deferred financing costs, net are associated with the Company's revolving line of credit and term note from a financial institution. (see Note 10 and 13) Balance included $425,076 which was related to the warrants issued pursuant to investment banking fees. For the year ended December 31, 2004, the amortization of deferred financing cost approximated $125,379 (2003:Nil). There was no amortization of deferred financings costs in 2003.

	2004	2003
Cost	$ 1,176,365	$ -
Accumulated amortization	125,379	
	$ 1,050,986	$ -

The estimated amortization expense for each of the next three fiscal years is as follows:

Year	Amount
2005	$ 471,892
2006	379,058
2007	200,036
	$ 1,050,986

9. Customer List

	2004		2003	
	Cost	Accumulated Depreciation	Cost	Accumulated Depreciation
Customer list	$ 16,667	8,333	$ 19,284	7,714
		$ 8,334		$ 11,570

Amortization expense for the year ended December 31, 2004 amounted to $3,848 (2003-$3,568).

The estimated amortization expense for each of the next three fiscal years is as follows:

Year	Amount
2005	$ 3,857
2006	3,857
2007	620
	$ 8,334

10. Bank Indebtedness

	2004	2003
Borrowings under revolving line of credit	$ 2,437,929	$ -
Bank overdraft	-	55,268
Demand overdraft facility and operating loan	-	578,481
	2,437,929	633,749
Add: conversion options of debt	1,413,999	-
Less: Discount on notes, net of accumulated amortization of $Nil (2003 - $Nil)	(1,392,352)	-
	$ 2,459,576	$ 633,749

The Company has a $3,000,000 secured revolving line of credit, including a secured convertible minimum borrowing note in the amount of $1,000,000 (see Note 13), with Laurus which is renewable in September 30, 2007. Advances under this facility of $2,437,929 at December 31, 2004 are collateralized by the assets of the Company. Interest on these borrowings is payable monthly at a minimum of 6% interest rate on the outstanding balance or an agreed upon formula of prime plus 2%. The Company will irrevocably remit all of its present and future Account Debtors directly to a bank account and repay the bank indebtedness.

Laurus may require us to convert into common stock all or a portion of the amount outstanding under the bank indebtedness, together with interest, at any time at a conversion price of $1.00 per common share, subject to adjustment in certain circumstances. Laurus has contractually agreed not to convert any portion of the credit facility if exercising the conversion option results in Laurus holding in excess of 4.99% of our outstanding shares of common stock. (also see Note 13)

The balance as at December 31, 2003 was related to a revolving credit facility with a Canadian Chartered Bank entered by A.C. Technical Systems Ltd., the wholly owned subsidiary of the Company. The balance was settled during the year.

11. Incomes Taxes

The Company's provision for (recovery of) income taxes is comprised as follows:

	2004	2003
U.S.	$ -	$ -
Canadian		
Current	(98,719)	43,653
Deferred	(51,203)	22,120
	$ (149,922)	$ 65,773

Reconciliation to statutory rates is as follows:

	2004	2003
Income (loss) before income taxes		
Income (loss) from U.S. sales	$ (2,868,432)	$ -
Income (loss) from Canadian sales	(1,296,246)	228,530
	(4,164,678)	228,530
Statutory tax rates for U.S.	41.00%	41.00%
Statutory tax rates for Canadian Federal	43.62%	41.6%

The Company has unutilized taxable losses in the United States available for carry forward to reduce income taxes of approximately $135,000 otherwise payable in future years. In addition, the Company has unutilized taxable losses in the Canadian taxes available for carry forward to reduce income taxes of approximately $290,000 otherwise payable in future years.

	2004		2003	
Expected income tax expense (recovery)	$ (1740,536)	(41.8%)	$ 95,114	41.6%
Increase (decrease) in taxes resulting from:				
Valuation allowances	426,133	10.2%	-	0.0%
Permanent differences	1,089,503	26.2%	20,878	9.1%
Small business and other tax rate reductions	55,558	1.3%	(48,458)	(21.2%)
Other	19,420	0.5%	$ (1,761)	(0.7%)
Income tax expenses (recovery)	$ (149,922)	(3.6%)	65,773	28.8%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities as of December 31, 2004 and 2003 are presented below:

	2004	2003
Assets		
Investment tax credits	$ 1,090	$ 72,465
Tax benefits on losses carried forward under U.S. tax rate	135,339	-
Tax benefits on losses carried forward under Canadian tax rate	290,795	-
Accounting depreciation in excess of tax depreciation	-	926
Other	50,920	3,162
	478,144	76,553
Less: valuation allowance	(426,133)	-
	52,011	76,553
Less: current portion	(16,071)	(42,654)
	$ 35,940	$ 33,899
Liabilities		
Income tax depreciation in excess of accounting depreciation	$ 1,300	$ 3,085
Investment tax credits taxable in the future	8,219	26,147
Other	32,849	25,608
	42,368	54,840
Less: current portion	(41,068)	(22,137)
	$ 1,300	$ 32,703

Net deferred income taxes

	2004	2003
Current		
Assets	$ 16,071	$ 42,654
Liabilities	(41,068)	(22,137)
	$ (24,997)	$ 20,517
Long-term		
Assets	35,940	33,899
Liabilities	(1,300)	(32,703)
	$ 34,640	$ 1,196
Total	$ 9,643	$ 21,713

12. Warranty

As part of the installation, the Company has provided its customers with warranties. The warranties generally extend ninety days labor and one year on equipment from the date of project completion.

	2004	2003
Balance, beginning of year	$ -	$ -
Expenses incurred	(10,556)	(14,082)
Provisions made	19,784	14,082
Balance, end of year	$ 9,228	$ -

13. Convertible Notes

a) Private Placement - Laurus Master Fund, Ltd.

On September 30, 2004, the Company entered into a series of agreements with Laurus Master Fund, Ltd., a Cayman Islands company, pursuant to which the Company issued a Secured Convertible Term Note in the principal amount of $4,500,000 due September 30, 2007, secured revolving note and secured convertible minimum borrowing note (the “revolving note”) of up to a maximum aggregate amount of $2,000,000 and $1,000,000 due September 30, 2007, a common stock purchase warrant and a stock purchase option.

Pursuant to the Secured Convertible Term Note, Laurus provided the Company with a $4,500,000 asset based credit facility in the form of a three-year Convertible Note secured by all the assets of the Company and its subsidiaries including accounts receivable, inventory and real property. The term note is convertible into shares of the Company's common stock at an initial fixed conversion rate of $1.00 per share.

At the closing of the transaction, Laurus funded $3,250,000 to the Company under the Convertible Note. Pursuant to the Securities Purchase Agreement between Laurus and the Company and a restricted account agreement entered into by the Company, Laurus and a US bank, the remaining $1,250,000 was deposited into a restricted account for the benefit of Laurus as additional security for the obligations of the Company under the purchase agreement and the related agreements. The restricted account is to be maintained at the US bank to be released upon the effectiveness of the registration statement covering the shares of common stock acquirable by Laurus, provided that there is no default by the Company under the Laurus financing and the Company meets certain financial milestones. Subsequent to the period ended September 30, 2004, Laurus has waived the requirements and released $125,000 from the restricted account to the Company to fund the Company's loan to dataBahn on March 9, 2005 (also see Note 21) and the remaining $1,125,000 was released on June 27, 2005. The $1,250,000 restricted account amount as of December 31, 2004 is included on the Balance Sheet under the caption "Restricted Cash".

Laurus has the option to convert the entire principal amount of the term note and revolving notes, together with interest thereon into shares of the Company's common stock at a conversion price of $1 per common share. The amount convertible into the Company's common stock is subject to a conversion cap that Laurus beneficially own no more than 4.99% of the Company's outstanding common stock immediately after conversion. The balance of the secured revolving notes was $2,437,929 as at December 31, 2004.

Pursuant to the Secured Convertible Term Note, subject to certain volume limitations and other conditions, all or a portion of the monthly payment due on the Convertible Term Note will be converted into the common stock of the Company. The term note sets forth criteria primarily relating to share price and trading volume pursuant to which the Company is 1) required to pay Laurus in cash, 2) required to pay Laurus in stock or 3) required to pay Laurus in a combination of cash and stock. If the share price and trading volume criteria are met, the Company is required to pay principal and interest in stock. If the share price, but not the trading volume, criteria are met, the Company will be required to pay in a combination of stock and cash. Otherwise, the Company will be required to pay Laurus in cash. Neither Laurus nor the Company has the option of choosing in which form the Company makes its payments if these criteria are met.

The Company must pay Laurus in stock if

(i) the average closing price of its common stock as reported by Bloomberg, L.P. on the principal market for the 5 consecutive trading days immediately preceding the date that Laurus gives the Company a Repayment Notice is greater than or equal to 110% of the fixed conversion price of $1.00 after the 3-for-1 stock split (i.e. if the stock price is greater than $1.10 per share) and

(ii) the amount of such conversion does not exceed 25% of the aggregate dollar trading volume of the common stock for the 22 day trading period immediately preceding delivery of a Repayment Notice.

Any portion of the monthly amount due that is not payable in shares of common stock because the trading volume conversion criteria described above are not met must be paid in cash. Accordingly, if the average closing price described above is over $1.10 per share but the number of shares due would exceed 25% of the aggregate dollar trading volume described above, the Company would be required to pay Laurus in a combination of cash and stock.

When the average closing price of the common stock is less than 110% of the fixed conversion price of $1.00, the Company must pay all or a portion of the monthly amount subject to the following conditions. If the average closing price of the common stock on the principal market is less than 110% of the fixed conversion price (i.e. less than $1.10) for the 5 trading days immediately preceding a repayment date, then Laurus shall provide CVAS with a Repayment Notice requiring the conversion of the monthly amount, as of the date of the repayment notice, at a fixed conversion price equal to the lesser of:

(i) 85% of the average of the closing prices of the common stock during the 20 trading days immediately prior to the date of the delivery of such respective repayment notice or

(ii) 85% of the average of the 3 closing prices of the common stock for the 3 trading days immediately prior to the date of the delivery of such respective repayment notice;

provided that such conversion of the monthly amount due on each repayment date does not exceed 25% of the aggregate dollar trading volume of the common stock for the 22 day trading period immediately preceding delivery of a repayment notice. The fixed conversion price should not be less than $0.73 in any event.

The Repayment Date is the date that monthly interest is payable, the date that the cash portion of each Monthly Amount is payable, and the date that shares, if any, are to be issued in lieu of the Monthly Amount. The first Repayment Date was November 1, 2004 and the Repayment Dates continue on the first day of each consecutive calendar month thereafter.

The Repayment Notice is the notice delivered by Laurus to the Company prior to the Repayment Date that sets out what portion of the Monthly Amount payable will be settled in shares.

Laurus does not have the option of choosing in which form the Company makes its monthly principal payments. If the conversion criteria described above are met, Laurus has voluntarily agreed to provide a Repayment Notice to indicate to the Company what portion of the Monthly Amount must be made in cash or stock. If Laurus does not provide the Repayment Notice, it has no legal consequences, but would make the determination of the requisite payments difficult. The Company is required to pay cash for any part of the monthly amount due on a Repayment Date which Laurus was not able to convert into shares of common stock due to failure to meet the conversion criteria.

Subject only to the conversion cap of the term note, Laurus is required to convert the then outstanding principal amount of the note plus all accrued, but unpaid interest thereon when all of the following conditions are met: 1) the closing price for any 10 consecutive trading days exceeds 135% of the then effective Fixed Conversion Price, 2) there is an effective registration statement pursuant to which Laurus is permitted to utilize the prospectus thereunder to resell all of the conversion shares issued to Laurus (or such conversion shares are eligible for sale under Rule 144 of the Securities Act), 3) there is a sufficient number of authorized but unissued and otherwise unreserved shares of common stock for Laurus to convert all the shares issuable to Laurus under the term note pursuant to Section 3.6, and 4) the amount of the term note to be so converted pursuant to Section 3.6 (when combined with the amount of the secured convertible minimum borrowing note issued by the Company to Laurus to be so converted pursuant to Section 3.6 of the minimum borrowing note and the amount of any other promissory note issued by the Company to Laurus required to be similarly mandatorily converted) does not exceed 10% of the aggregate dollar trading volume of the common stock during such 10 consecutive trading days. If all of these criteria were not met, Laurus would have no obligation to convert.

We may prepay the amortizing principal portion of the Convertible Term Note at any time by paying 125% of the outstanding amortizing principal amount, together with accrued but unpaid interest on the outstanding amortizing principal amount. We may also prepay the non-amortizing principal portion of the Convertible Term Note at any time by paying 120% of the outstanding non-amortizing principal amount, together with accrued but unpaid interest on the outstanding non-amortizing principal amount. Upon an event of default under the Convertible Term Note, Laurus may demand repayment at a rate of 120% of the outstanding principal and interest amount of the Convertible Term Note. If the Convertible Term Note remains outstanding after an event of default that is not cured, the additional interest rate on the outstanding principal amount payable on a monthly basis will be equal to 18% per annum. Events of default include:

- a failure to make payments under the Convertible Term Note when due;
- a material breach of the transaction documents by us;
- bankruptcy related events;
- a change of control transaction without prior approval;
- a SEC stop trade order or Principal Market trading suspension of the Common Stock; and
- events of default under other indebtedness agreements to which we are a party.

Pursuant to the Secured Convertible Minimum Borrowing Note, subject to certain volume limitations and other conditions, if after the date a registration statement covering the resale of the conversion shares is declared effective, the closing price for any 10 consecutive trading days exceeds 135% of the then effective Fixed Conversion Price, Laurus will within 10 trading days convert all or part of the then outstanding amount of the secured convertible minimum borrowing note plus all accrued but unpaid interest into shares of the Company's common stock. No amount can be converted until (a) either (i) there is an effective registration statement covering the shares of the common stock to be issued in satisfaction of such obligations, or (ii) an exemption from registration of the common stock is available pursuant to Rule 144 of the Securities Act, and (b) no event of default exists under the transaction documents unless cured or waived.

The Company has granted Laurus a right of first refusal with respect to any debt or equity financings for a period of 120 days after completion of the business acquisition and leveraged buyout transaction.

The principal amounts of the term note and the revolving notes bear interest at the prime rate plus two percent with a minimum rate of six percent. Interest accrued on the term note but was not payable until November 1, 2004. Interest on the revolving note accrues on a monthly basis. Interest is calculated on the basis of a 360 day year. The minimum monthly payment on the term note is $100,000, plus the monthly interest payment, and may be paid in cash, the common stock of the Company or a combination of cash and stock, dependant upon the occurrence of certain criteria.

Interest on the term note for the year ended December 31, 2004 was $76,406 (2004: $Nil). The minimum fixed monthly principal repayment of $100,000 commences on April 1, 2005, and continues through the September 30, 2007 maturity date.

On a month-by-month basis, if we register the shares of common stock issuable upon conversion of the note and upon exercise of the warrant and options on a registration statement declared effective by the SEC, the interest rate on the Note is subject to a 0.25% reduction for every 25% increase in the market price of our common stock above the conversion price of the Note, but in no event shall the interest rate be less than zero percent.

Laurus also has the option to convert all or a portion of the Convertible Term Note into shares of our common stock at any time, subject to the limitation described below, at an initial fixed conversion price of $1.00 per share, subject to adjustment as described below. The Convertible Term Note is currently convertible into 4,500,000 shares of our common stock, excluding the conversion of any accrued interest. The conversion price is adjustable on a weighted average basis upon certain future issuances of securities by us at a price less than the conversion price then in effect. The limitation on Laurus' ability to convert the Note and exercise the warrant and options includes:

- Laurus may not convert the Note or exercise the Warrant for a number of shares that would cause all shares then held by Laurus to exceed 4.99% of our outstanding shares of common stock unless there has been an event of default or Laurus provides us with 75 days prior notice.

The principal payments for the next three years are as follows:

Year	Amount
2005	$ 900,000
2006	1,200,000
2007	2,400,000
	$ 4,500,000

We were obligated to file a registration statement registering the resale of shares of our common stock issuable upon conversion of the note and exercise of the warrants and options by November 15, 2004 and to have such registration statement declared effective by the SEC by no later than March 31, 2005. If the registration statement is suspended other than as permitted in the Registration Rights Agreement, or if our common stock is not listed for three consecutive trading days, we are obligated to pay Laurus additional fees. The fees are 2.0% of the original principal amount of the term note and secured minimum borrowing note for each 30 day period in which we fail to take these actions. Under the Registration Rights Agreement between Laurus and the Company, if

(i) the Registration Statement is not filed on or prior to the applicable filing date;

(ii) the respective Registration Statement is not declared effective by the effectiveness date;

(iii) after the respective Registration Statement is filed with the SEC and declared effective, such Registration Statement ceases to be effective due to certain conditions;

(iv) the Common Stock is not listed or quoted, or is suspended from trading on any Trading Market for a period of five consecutive Trading Days,

The Company shall pay Laurus an amount in cash, as liquidated damages and not as a penalty, equal to 2.0% for each thirty day period (prorated for partial period) on a daily basis of the sum of the original principal amount of the Note (as defined in the Securities Purchase Agreement) plus the original principal amount of each applicable Minimum Borrowing Note (as defined in the Security Agreement).

Convertible notes, net of current portions are comprised of:

		2004
7% convertible term note due to Laurus, collateralized by all assets of the Company	$	4,500,000
Add: conversion options of debt		2,610,000
Less:		
Discount on notes		(3,889,670)
		3,220,330
Less: current portion		900,000
	$	2,320,330

b) Derivative Financial Instruments

We also issued to Laurus warrants and options to purchase up to 2,250,000 shares and 1,499,997 shares of our common stock at an exercise price of $1.15 and $0.01 per share with a term of seven and ten years. The warrants and options were initially recorded as equity and they have been reclassified for the period ended September 30, 2004 (see Note 3 Restatement). The warrants and options were now recorded at fair value and classified as liability (with a corresponding entry as debt discount of the note). The fair value of the warrants and option at the time of issue was $2,963,000. (computed using a Black-Scholes model with an interest rate of 3.5%, volatility of 55%, expected dividend yield of 0%, share price of $1.07 and expected term of seven and ten years respectively). The discount attributable to the above warrants and options are recorded as a reduction to the carrying value of the Bank Indebtedness (Note 10) and Convertible Note (Note 13) in the accompanying consolidated balance sheet as of September 30, 2004. The debt discount is being amortized over the term of the Convertible Note and Bank Indebtedness using the effective interest method. The changes in derivative instruments for the year ended December 31, 2004 was $2,414,720 (2003:$Nil).

Additionally, we recorded $1,176,365 for debt issue cost, including investment banking fees and legal and professional fees which included $751,289 payable in cash and $425,076 payable through warrants issued to the investment bankers. (Note 17). The discount attributable to the warrants and options are recorded as a reduction to the carrying value of the Note, and the debt issue costs are included in deferred financing costs in the accompanying consolidated balance sheet as of December 31, 2004. The debt issue costs are being amortized over the term of the Convertible Note using the effective interest method. Amortization of the debt issuance costs for the period ended December 31, 2004 was $125,379 (2003-$Nil).

EITF Issue No. 00-19, *"Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock,"* or EITF 00-19, addresses accounting for equity derivative contracts indexed to, and potentially settled in, a company's own stock, or equity derivatives, by providing guidance for distinguishing between permanent equity, temporary equity and assets and liabilities. EITF 00-19 addresses and clarifies whether specific contract provisions or other circumstances cause a net-share or physical settlement alternative to be within or outside the control of the issuer.

Under EITF 00-19, to qualify as permanent equity, all of the following criteria must be met: the equity derivative contract must permit the company to settle in unregistered shares, the company must have sufficient authorized but unissued shares available to settle the contract, the contract must contain an explicit limit on the number of shares to be delivered in a share settlement, there can be no requirement in the contract to post collateral, there can be no "make whole" provisions in the contract, there can be no provisions that could require a net cash settlement to the holder of the contract and there can be no provisions in the contract that indicate the counterparty has rights that rank higher than those of a common stockholder. Equity derivative contracts accounted for as permanent equity are recorded at their initial fair value and subsequent changes in fair value are not recognized unless a change in the contracts' classification occurs. Equity derivative contracts not qualifying for permanent equity accounting are recorded at fair value as an asset or liability with subsequent changes in fair value recognized through the statement of operations.

The registration rights are not treated as freestanding derivative instruments and penalties will be recorded as expenses when they are incurred.

In connection with the provisions of EITF 00-19 the Company acknowledges that obtaining a declaration of a registration statement's effectiveness and maintaining such effectiveness is beyond its control. Therefore, the potential liquidated damages we may be required to pay pursuant to the registration rights agreements described in Note 14(a) if we fail to keep our registration statements effective are a potential net cash settlement under EITF 00-19. The warrants and options issued in connection with the financing should be classified as liabilities. The fair value of the warrant and option liability is adjusted at each balance sheet date, with the non-cash change in fair value reported in the consolidated statement of operations as other income or expense.

At December 31, 2004, the following derivative liabilities related to common stock options and warrants were outstanding:

Issue Date	Expiry Date		Number of options or warrants	Exercise Price Per Share	Value - issue date	Value - December 31, 2004
09-30-2004	09-30-2014	Option issued Laurus in connection with financing	1,499,997	$ 0.01	$ 1,593,000	$ 2,018,417
09-30-2004	09-30-2011	Warrants issued Laurus in connection with financing	2,250,000	1.15	1,370,000	1,654,326
					$ 2,963,000	$ 3,672,743

At December 31, 2004, the following derivative liabilities related to embedded conversion options were as follows:

09-30-2004		Conversion options related to the convertible term note	4,500,000	1.00	2,070,000	2,610,000
09-30-2004		Conversion options related to bank indebtedness	3,000,000	1.00	1,035,000	1,413,999
					3,105,000	$ 4,023,999
					$ 6,068,000	$ 7,696,742

14. Other Notes Payable

As at December 31, 2004, balance comprises:

	2004	2003
10.5% promissory notes	$ 166,668	$ -
8% convertible promissory note	107,823	-
	274,491	-
Less: current portion	107,823	-
	$ 166,668	$ -

In February 2004, the Company issued four promissory notes each with principal amounts of $39,632 and payable at 100% of the face or principal amount in the denomination of CAD $50,000. The notes mature on February 26, 2007. Interest is payable monthly and accrues at the rate of 10.5% per annum on the outstanding principal amount on the 26th day of each month. The principal amount of the notes is repayable in twelve consecutive monthly payments commencing on March 26, 2006.

In September 2004, the Company issued a convertible promissory note payable at 100% of the face or principal amount of $100,000. The note matures on October 15, 2005. Interest on the note accrues at the rate of 8% per annum, payable monthly.

Interest expense recognized for the year was $30,821 (2003:$Nil).

The principal payments for the next five years and thereafter are as follows:

Year	Amount
2005	$ 107,823
2006	138,889
2007	27,779
	$ 274,491

15. Mortgage loans

Demand mortgage loan was settled during the year. Total interest for the year was $10,614 (2003:$16,591).

16. Major customers

Sales to one (2003-one) major customer for the year comprises 22% (2003 - 32%) of total sales.

Accounts receivable from the top three customers (2003 - three) comprises 33% (2003 - 37%) of the total trade receivable balance as at December 31, 2004.

17. Shareholders' Equity

The Company has total authorized share capital of 100,000,000 shares. On December 23, 2004, the Company declared a three-for-one stock split on the shares of the Company's common stocks. (see Note 2)

During fiscal year 2004, the Company entered into a consulting agreement by issuing 60,000 shares of common stock in consideration of investor relations services rendered. In addition, the Company entered into engagement letter by issuing 75,000 shares of common stock for legal services rendered, which includes certain SEC filings, and routine U.S. corporate and securities law advice. Total recognized consulting and legal expenses for the year relating to the above shares are $16,000 and $34,818. The remaining balance was recorded under prepaid expenses $98,182.

As a result of the above transaction, the number of common shares increased to 30,135,000.

Options

During the year ended December 31, 2004, the Company granted 1,499,997 options to purchase a maximum of 1,499,997 shares of common stock. All the options granted are pursuant to issuance of debt. These options allow the holders to buy the Company's common stock at a price of two-thirds of a cent per share and expire on September 30, 2014. The fair value of options issued was $1,593,000. No options were exercised during the year (see also Note 13).

Warrants

During the year ended December 31, 2004, the Company granted 2,989,500 warrants to purchase a maximum of 2,989,500 shares of common stock. Of the warrants granted, 2,250,000 warrants were issued pursuant to issuance of debt with the balance of 739,500 warrants issued pursuant to consulting and investment banking fees. The warrants related to the debt were recorded at fair value by using the Black-Scholes option pricing model as discounts of the convertible notes (see Note 13 for the conditions). The fair value of the warrants issued pursuant to issuance with the debt was $1,370,000.

In addition, the warrants issued pursuant to consulting and investment banking fees were recorded at fair value by using the Black-Scholes option pricing model and part of the costs were recorded as deferred financing costs (also see Note 8). The fair value of the warrants issued was $559,315. The balance related to the financing cost amounted to $425,076 was recorded as Deferred Financing Cost (Note 8 and 13b) and the remaining balance $134,239 related to the business and acquisition cost was expensed as general and administration cost as at December 31, 2004. These warrants allow the holders to buy the Company's common stock at prices ranging from $0.33 to $1.15 per share and expire at various dates between September 30, 2009 and September 30, 2011. No warrants were exercised during the year (see also Note 13).

18. Loss Per Share

The following table sets forth the computation of basic and diluted loss per share. The effect of dilutive securities is included only when dilutive.

	Successor	Predecessor	
	Period from September 30, 2004 to December 31, 2004	**Period from January 1, 2004 to September 29, 2004**	Year Ended December 31, 2003
Numerator			
Net income (loss)	$ (3,249,103)	$ (765,653)	$ 162,757
Denominator			
Denominator for basic earnings per share weighted average shares outstanding	30,014,753	30,000,000	30,000,000
Denominator for diluted earnings per share adjusted weighted average shares assumed conversions	30,014,753	30,000,000	30,000,000
Basic earnings (loss) per share	(0.11)	(0.03)	0.01
Diluted earnings (loss) per share	(0.11)	(0.03)	0.01

Total number of shares excluded from the calculation of loss per share for the year ended December 31, 2004 was 11,427,426 because they are anti-dilutive.

19. Acquisition

The Transaction described in Note 1 was accounted for as a business combination in accordance with SFAS No. 141 with the step-up in the basis of assets acquired and liabilities assumed limited by the requirements of EITF 88-16. A summary of the Transaction is presented below:

Proceeds from borrowings	$	3,300,000
Assumption of bank indebtedness		63,746
Aggregate purchase price		3,363,746
Continuing shareholders' basis adjustment (Note 3)		(2,796,100)
Purchase price allocated	$	567,646
Fair value of net tangible assets acquired		
Accounts receivable	$	287,160
Income taxes recoverable		9,030
Inventory		71,107
Prepaid expenses		3,448
Other current assets		3,740
Property and equipment		103,439
Deferred income taxes		20,109
Accounts payable and accrued liabilities		(268,683)
Deferred income		(44,636)
Notes payable		(33,941)
Mortgage payable		(29,852)
Loans payable		(23,740)
Net tangible assets acquired		97,181
		470,465
Capitalized transaction costs		33,435
Goodwill	$	503,900

20. Commitments

The Company has entered into contracts for certain consulting services providing for monthly payments with the Companies controlled by the CEO and the president's spouse. In addition, the Company has also entered into an operating lease for its vehicles, computers and office equipment. The total minimum annual payments for the next five years are as follows:

	Total	2005	2006	2007	2008	2009
Operating leases	$ 198,313	$ 123,864	$ 58,911	$ 15,538	$ -	$ -
Commitments related to consulting agreements	2,801,290	465,384	509,999	557,153	607,099	661,655
	$ 2,999,603	$ 589,248	$ 568,910	$ 572,691	$ 607,099	$ 661,655

21. Subsequent Events

On January 12, 2005, the Company announced that AC Technical entered into a letter of intent to acquire the privately-held dataBahn, Inc. (“dataBahn”). dataBahn is based in Farmers Branch, Texas, and provides solutions to connect consumers and commercial users by providing satellite-based internet, voice and data services to the emerging broadband mobile communications markets. The acquisition is subject, among other things, to due diligence and the negotiation of definitive documentation. In furtherance of this acquisition, the Company entered into a Security Agreement and Secured Promissory Note Purchase Agreement with dataBahn, Inc. on March 9, 2005. Pursuant to these agreements, the Company is negotiating the terms of transaction with dataBahn to acquire all its outstanding capital stock or substantially all of its assets. In order to meet certain financial obligations of dataBahn, the Company purchased a Secured Promissory Note amounting to $125,000 from dataBahn. The secured two-year promissory note bears interest at 10% and matured on March 9, 2007. dataBahn pays interest on monthly basis from April 8, 2005 and the monthly principal amounted to $10,416 will start to be paid from April 8, 2006.

Subsequent to year end, the Company entered into ten Amendments (each an “Amendment”) with Laurus amending the following agreements previously entered into by the Company and Laurus on September 30, 2004: (a) the Securities Purchase Agreement; (b) the Secured Convertible Term Note; and (c) the Registration Rights Agreement.

Pursuant to the Amendments, Laurus agreed to postpone scheduled principal payments in respect of the Term Note and in consideration of the postponement until September 30, 2007, the Company agreed to issue additional 1,000,000 warrants.

In addition, on June 22, 2005, the Company entered into an Amendment and Waiver with Laurus amending the Securities Purchase Agreement and Registration Rights Agreement. Pursuant to the Amendment, Laurus waived liquated damages due and payable to Laurus by the Company of approximately $138,000 incurred by the Company for failing to cause its registration statement registering the shares to be declared effective by the SEC on the required date. The Company issued to Laurus a warrant to purchase 313,000 shares of the common stock of the Company at an exercise price of $1.00 per share. The Company entered into another Amendment and Waiver with Laurus as of September 1, 2005 pursuant to which Laurus waived liquidated damages due and payable by the Company for failing to cause its registration statement to be declared effective by the SEC on the extended required date. The effectiveness date has been extended to November 30, 2005. The Company has not issued additional warrants to Laurus in connection with this waiver.

Subsequent to year end, the Company entered into another consulting agreement by issuing 200,000 shares of stock in consideration for investor relations services rendered. The fair value of shares issued was $367,446. In addition, the Company entered into another consulting agreement by issuing 100,000 shares of stock in consideration for advisory services rendered.

In addition, all the outstanding principal of a convertible promissory note in the amount of $105,193 was converted by Rachel Heller into 174,216 shares of the Company's common stock subsequent to year end.

Also on December 31, 2005, the Company and Laurus entered into an Amendment and Waiver extending the date by which the Company was to have an effective registration statement on file with the Securities and Exchange Commission registering the shares of common stock of the Registrant issuable upon conversion of the Secured Convertible Term Note and the exercise of the Warrant to March 31, 2006.

Item 13. Exhibits

23.1	Consent of BDO Dunwoody, LLP
31.1	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Chief Executive Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Chief Financial Officer certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

SIGNATURES

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

CREATIVE VISTAS, INC.

By: /s/Sayan Navaratnam

Sayan Navaratnam

Chief Executive Officer

Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in this annual report of Creative Vistas, Inc. (referred to therein as the "Successor" of the "Company") on Form 10-KSB, Amendment No. 1, of our report dated March 9, 2005 (except for the impact of the restatement described in Note 3b which is as at April 7, 2006) on the balance sheet of the Company as of December 31, 2004 and the related consolidated statements of operations, stockholders' equity (deficiency) and other comprehensive income and cash flows for the period from September 30, 2004 to December 31, 2004, appearing in the annual report.

(signed) BDO Dunwoody LLP

Chartered Accountants
Toronto, Ontario
April 17, 2006

BDO Dunwoody LLP is a Limited Liability Partnership registered in Ontario

Consent of Independent Registered Public Accounting Firm

We hereby consent to the use in this annual report of Creative Vistas, Inc. (referred to therein as the “Predecessor” of the "Company") on Form 10-KSB, Amendment No. 1, of our report dated February 24, 2005 relating to the balance sheet of the Company as of December 31, 2003 and the related statements of operations, stockholders' equity (deficiency) and other comprehensive income and cash flows for the period from January 1, 2004 to September 29, 2004 and for the year ended December 31, 2003, appearing in the annual report.

(signed) BDO Dunwoody LLP

Chartered Accountants
Toronto, Ontario
April 17, 2006

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Sayan Navaratnam, certify that:

1. I have reviewed this quarterly report on Form 10-KSB of Creative Vistas, Inc.;

2. based on my knowledge, this 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 report;

3. based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under one supervisor, 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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;

(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 function):

(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.

Dated: April 17, 2006

By: /s/ *Sayan Navaratnam*

Sayan Navaratnam
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13A-14 OR 15D-14 OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Heung Hung Lee, certify that:

1. I have reviewed this quarterly report on Form 10-KSB of Creative Vistas, Inc.;

2. based on my knowledge, this 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 report;

3. based on my knowledge, the financial statements, and other financial information included in this 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 report;

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

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under one supervisor, 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 quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this 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 function):

(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.

Dated: April 17, 2006

By: /s/ *Heung Hung Lee*

Heung Hung Lee
Chief Financial Officer

Exhibit 32.1

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 Creative Vistas, Inc. (the "Company") on Form 10-KSB for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Sayan Navaratnam, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my 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 result of operations of the Company.

By: /s/ *Sayan Navaratnam*

Sayan Navaratnam
Chairman and Chief Executive Officer

April 17, 2006

Exhibit 32.2

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 Creative Vistas, Inc. (the "Company") on Form 10-KSB for the fiscal year ended December 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Fairy Lee, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that to the best of my 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 result of operations of the Company.

By: /s/ *Heung Hung Lee*

Heung Hung Lee
Chief Financial Officer

April 17, 2006