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USA VIDEO INTERACTIVE CORP.

CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2005

(Unaudited)

(Stated in US Dollars)

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USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Stated in US Dollars)

	March 31, 2005 (Unaudited)	December 31, 2004
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,543	$ 9,341
Prepaid expenses and other current assets	11,820	18,536
Total current assets	15,363	27,877
Property and Equipment - at cost, net of accumulated depreciation of $16,069		
Other Assets, net of accumulated amortization of $18,815 and $17,984, respectively	37,673	38,504
Prepaid rent	22,274	23,120
Deferred Tax Assets, net of valuation allowance of $8,660,000 and $8,517,000, respectively	-	-
Total Assets	$ 75,310	$ 89,501
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
Current Liabilities:		
Accounts payable and accrued expenses	$ 556,332	$ 556,714
Due to related parties	160	160
Total current liabilities	556,492	556,874
Commitments and Contingencies		
Stockholders' Deficiency:		
Preferred stock - no par value; authorized 250,000,000 shares, none issued		
Common stock and additional paid-in capital – no par value; authorized 250,000,000 shares, issued and outstanding 132,851,422 and 130,435,088, respectively	33,058,216	32,810,318
Accumulated deficit	(33,539,398)	(33,277,691)
Stockholders' deficiency	(481,182)	(467,373)
Total Liabilities and Stockholders' Deficiency	$ 75,310	$ 89,501

See accompanying notes

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(Stated in US Dollars)

Three months ended March 31	2005	2004
	(Unaudited)	
Revenue	$ 18,800	$ 4,700
Expenses:		
Cost of sales	5,000	3,379
Research and development	52,000	61,202
Selling, general and administrative	223,239	203,110
Depreciation and amortization	831	831
Total expenses	281,070	268,522
Loss from operations	(262,270)	(263,822)
Other income (expense)		
Interest (expense)	(11)	(1,181)
Other	574	292
	563	(889)
Net loss	$ (261,707)	$ (264,711)
Net loss per share - basic and diluted	$ (.00)	$ (.00)
Weighted-average number of common shares outstanding - basic and diluted	131,549,230	116,835,007

See accompanying notes

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIENCY

(Stated in US Dollars)

(Unaudited)

	Common Stock			
	Shares	**Amount**	**Accumulated Deficit**	**Stockholders' Deficiency**
Balance at December 31, 2004	130,435,088	$32,810,318	$ (33,277,691)	$ (467,373)
Issuance of common stock and common stock warrants for cash	1,500,000	150,000	-	150,000
Issuance of common stock upon exercise of warrants	766,334	57,398		57,398
Issuance of common stock upon exercise of stock options	150,000	37,500	-	37,500
Noncash compensation charges		3,000	-	3,000
Net loss	-	-	(261,707)	(261,707)
Balance at March 31, 2005	132,851,422	$33,058,216	$ (33,539,398)	$ (481,182)

See accompanying notes

USA VIDEO INTERACTIVE CORP. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Stated in US Dollars)

Three months ended March 31	2005 (Unaudited)	2004 (Unaudited)
Cash flows from operating activities:		
Net loss	$ (261,707)	$ (264,711)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	831	831
Noncash compensation charge	3,000	46,500
Changes in operating assets and liabilities:		
Decrease in prepaid expenses and other current assets	7,562	70
(Decrease) in accounts payable and accrued expenses	(382)	(20,888)
Net cash used in operating activities	(250,696)	(238,198)
Cash flows from financing activities:		
Proceeds from the issuance of common stock and warrants	244,898	198,133
Net cash provided by financing activities	244,898	198,133
Net (decrease) in cash and cash equivalents	(5,798)	(40,065)
Cash and cash equivalents at beginning of period	9,341	52,566
Cash and cash equivalents at end of period	$ 3,543	$ 12,501

See accompanying notes

USA VIDEO INTERACTIVE CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)
(Stated in US Dollars)

NOTE A – BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01(a)(5) of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included. The results for the interim periods are not necessarily indicative of the results that may be attained for an entire year or any future periods. For further information, refer to the Financial Statements and footnotes thereto in the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As shown in the financial statements, the Company has incurred losses of $261,707 for the three month period ended March 31, 2005 and, in addition the Company incurred losses of $1,403,838 and $697,412 for the years ended December 31, 2004 and 2003, respectively. These conditions raise doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations as they come due which management believes it will be able to do. To date, the Company has funded operations primarily through the issuance of common stock and warrants to outside investors and the Company's management. The Company believes that its operations will generate additional funds and that additional funding from outside investors and the Company's management will continue to be available to the Company when needed. The Company also has certain lawsuits pending which could result in additional liabilities. The financial statements do not include any adjustments relating to the recoverability and classification of recorded assets, or the amounts and classifications of liabilities that might be necessary in the event the Company cannot continue as a going concern.

Basic loss per common share ("EPS") is computed as net loss divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes the impact of common stock potentially issuable upon the exercise of options and warrants. Potential common stock has been excluded from the computation of diluted net loss per share as their inclusion would be antidilutive.

USA VIDEO INTERACTIVE CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)
(Stated in US Dollars)

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: *(continued)*

The assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars at current exchange rates, and revenue and expenses are translated at average rates of exchange prevailing during the period. The aggregate effect of translation adjustments is immaterial at March 31, 2005 and 2004.

NOTE C – COMMON STOCK

On February 25, 2005, the Company issued 1,350,000 units to investors at $.100 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at $.13 per share.

On February 25, 2005, the Company issued 150,000 units to employees at $.100 per unit. Each unit consisted of one share of common stock and one warrant to purchase an additional share of common stock at $.13 per share. The company charged operations for approximately $3,000 representing the differential between the fair value and the purchase price of the common stock and for approximately $-0- representing the differential between the fair value of the underlying common stock and the exercise price of the warrants.

From January 1, 2005 to March 31, 2005, the Company issued 766,333 shares of common stock upon the exercising of warrants with exercise prices ranging from $.0657 to $.1175 per common share and issued 150,000 shares of common stock upon the exercising of stock options with exercise price of $.25.

NOTE D - CONTINGENT LIABILITY

The Company is party to a default judgement entered against one of the Company's subsidiaries. During the year ended December 31, 1995, a claim was made to the Company for the total amount payable under the terms of the lease with the Company's subsidiaries for office space in Dallas, Texas through 2002. The Company's management is of the opinion that the amount payable under the terms of this judgement is not estimable or determinable at this time and may be substantially mitigated by the landlord renting the property to another party. The range of possible loss is from $-0- to approximately $500,000. Any settlement resulting from the resolution of this contingency will be accounted for in the period of settlement when such amounts are estimable or determinable.

USA VIDEO INTERACTIVE CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2005
(Unaudited)
(Stated in US Dollars)

NOTE D - CONTINGENT LIABILITY *(continued)*

On April 10, 2003, the Company announced that a subsidiary had filed a lawsuit in U.S. District Court for the District of Delaware against Movielink, LLC. The Company alleges that Movielink, a Delaware company, has infringed and continues to infringe on the Company's patented online movie delivery System.

On January 28, 2005, the Court issued an opinion and order granting summary judgment in favor of Movielink, based on the Court's conclusion that the record contained insufficient evidence that the Movielink system "*initiates connections*" (a requirement for infringement of the Company's patent) in light of the Court's construction of the term "*initiates*." The Company filed a motion for reconsideration on February 11, 2005, asking the Court to reconsider its ruling on that point, to decide the remaining aspects of the claim construction and the other pending motions, and to permit the Company's case to proceed to trial. Movielink filed its opposition to the Company's motion for the reconsideration on February 28, 2005. The parties are presently awaiting the Court's decision.

At this time, Company Counsel is not able to conclude that it is either "*probable*" or "*remote*" (as those terms are defined in the Statement of Policy) that the Court will reconsider its January 28, 2005 summary judgment decision in favor of Movielink, and, accordingly expresses no opinion as to the outcome of this matter.

If the Company were to lose its motion for the reconsideration, the Litigation would be concluded in the District Court. In that event, and unless the decision were appealed successfully by the Company, the Company would be liable for Movielink's "*costs*" under the Federal Rules of Evidence (including such items as deposition transcription costs, but not attorneys' fees), which could involve a loss in excess of $5,000. Additionally, Movielink has signaled its intention to argue that the Company initiated and has maintained the Litigation in bad faith. In the event that Movielink were to prevail on such an argument, the Company could be exposed to a judgment for Movielink's attorney's fees – an amount which the Company's Counsel is not in a position to estimate but which certainly would exceed $5,000.

NOTE E – STOCK BASED COMPENSATION

The Company has elected to apply APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations in accounting for its stock options and has adopted the disclosure-only provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, Accounting for Stock-Based Compensation. If the Company had elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed by SFAS No. 123, the Company's net loss and net loss per common share for the three month periods ended March 31, 2005 and 2004 would have been as follows:

NOTE E – STOCK BASED COMPENSATION *(continued)*

Three months ended March 31	2005	2004
Net loss:		
As reported	$ (261,707)	$ (264,711)
Add: Stock-based compensation expense included in reported net loss	3,000	46,500
Deduct: Total stock-based compensation expense determined under fair value based method for all awards	(3,000)	(72,000)
Pro forma	$ (261,707)	$ (290,211)
Loss per common share-basic and diluted:		
As reported	$ (0.00)	$ (0.01)
Pro forma	$ (0.00)	$ (0.01)

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards No. 123 (revised 2004), "Share-Based Payment" which revised Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation". This statement supercedes APB Opinion No. 25, "Accounting for Stock Issued to Employees." The revised statement addresses the accounting for share-based payment transactions with employees and other third parties, eliminates the ability to account for share-based compensation transactions using APB 25 and requires that the compensation costs relating to such transactions be recognized in the consolidated statement of operations. The revised statement is effective for the Company beginning January 1, 2006. It is expected to have an impact on the Company's consolidated financial statements similar to the pro forma disclosure under Statement of Financial Accounting Standards No. 123 "Accounting for Stock-Based Compensation"("SFAS 123").

NOTE F – PREPAID RENT

Prepaid rent represents payment made to the landlord at inception of the lease. This amount is being amortized over the life of the lease (5 years).

NOTE H – SUBSEQUENT EVENTS

From April 1, 2005 to May 13, 2005, the Company issued 846,667 shares of common stock upon the exercising of warrants at exercise prices of $.075 per common share.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

CAUTIONARY STATEMENT

This document includes statements that may constitute forward-looking statements made pursuant to the Safe Harbor provisions of the *Private Securities Litigation Reform Act of 1995.* We caution readers regarding certain forward-looking statements in this document, press releases, securities filings, and all other documents and communications. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Quarterly Report on Form 10-Q ("*Report*") are forward looking. The words "*believes*," "*anticipates*," "*estimates*," "*expects*," and words of similar import, constitute "*forward-looking statements.*" While we believe in the veracity of all statements made herein, forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by us, are inherently subject to significant business, economic and competitive uncertainties and contingencies and known and unknown risks. As a result of such risks, our actual results could differ materially from those expressed in any forward-looking statements made by, or on behalf of, the company. We will not necessarily update information if any forward-looking statement later turns out to be inaccurate. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including risks and uncertainties set forth in our Annual Report on Form 10-K, as well as in other documents we file with the Securities and Exchange Commission ("*SEC*").

The following information has not been audited. You should read this information in conjunction with the unaudited financial statements and related notes to financial statements included in this report.

OVERVIEW OF THE COMPANY

USA Video Interactive Corp. designs and markets to business customers streaming video and video-on-demand systems, services and source-to-destination digital media delivery solutions that allow live or recorded digitized and compressed video to be transmitted through Internet, intranet, satellite or wireless connectivity. Our systems, services and delivery solutions include video content production, content encoding, media asset management, media and application hosting, multi-mode content distribution, transaction data capture and reporting, e-commerce, specialized engineering services, and Internet streaming hardware.

Although we have not generated any significant sales for the year to date, we continue to explore opportunities that will result in new products for new revenue streams, but there can be no assurances that such efforts will be successful.

We hold the patent for Store-and-Forward Video-on-Demand (#5,130,792), filed in 1990 and issued by the United States Patent and Trademark Office on July 14, 1992. It has been cited by at least 145 subsequent patents. We hold similar patents in England, France, Spain, Italy, Germany, Canada, and Japan. We anticipate actively engaging in licensing this patent.

Our Store and Forward Video-on-Demand ("*VoD*") intellectual property potentially reaches across the VoD market. Our patented technique covers the transmission of video content over networks faster than "*real time*." VoD is the mechanism by which the delivery of compressed video is managed and, together with compression technology, facilitates the delivery of video to an end user in a timely and interactive fashion.

We have developed a number of specific products and services based on these technologies. These include StreamHQ™, a collection of source-to-destination media delivery services marketed to businesses; EncodeHQ™, a service that digitizes and compresses analog-source video; hardware server and encoder system applications under the brand name Hurricane Mediacaster™; ZMail™, a service that delivers web and rich media content to targeted audiences; mediaClix™, a service that delivers content similar to Zmail but originating from an existing web presence; and MediaSentinel™, a patent-pending digital watermarking technology to deter digital video piracy.

The company was incorporated on April 18, 1986, as *First Commercial Financial Group Inc.* in the Province of Alberta, Canada. In 1989, our name was changed to *Micron Metals Canada Corp.*, which purchased 100% of the outstanding shares of USA Video Inc., a Texas corporation, in order to focus on the digital media business. In 1995, we changed our name to *USA Video Interactive Corp.* and continued our corporate existence to the State of Wyoming. We have five wholly-owned subsidiaries: USA Video (California) Corp., USA Video Corp., Old Lyme Productions Inc., USA Video Technologies, Inc., and USVO, Inc. Our executive and corporate offices are located in Old Lyme, Connecticut, and our Canadian offices are located in Vancouver, British Columbia.

BUSINESS OBJECTIVES:

We have established the following near-term business objectives:

1. Leverage our digital VoD patent for licensing fees and partnerships in the United States and internationally;

2. Patent and license new technology developed within the corporate research and development program;

3. Attain industry recognition for the superior architectural, functional, and business differentiators of our MediaSentinel™ architecture;

4. Demonstrate proof of concept on a commercial project with MediaSentinel™ architecture;

5. Establish StreamHQ™ as the industry standard in the streaming video and rich media marketplace;

6. Expand StreamHQ™ functionality to provide enhanced support for corporate training and education markets.

CRITICAL ACCOUNTING POLICIES (AND ESTIMATES)

Our discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate these estimates, including those related to customer programs and incentives, bad debts, inventories, investments, intangible assets, income taxes, warranty obligations, impairment or disposal of long-lived assets, contingencies and litigation. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We consider the following accounting policies to be both those most important to the portrayal of our financial condition and that require the most subjective judgment:

- Revenue recognition;
- Impairment or disposal of long-lived assets; and
- Deferred taxes.

REVENUE RECOGNITION. Software revenue and other services are recognized in accordance with the terms of the specific agreement, which is generally upon delivery and when accepted by customer. Maintenance, support and service revenue are recognized ratably over the term of the related agreement.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS. Long-lived assets are reviewed in accordance with Statement of Financial Accounting Standard ("*SFAS*") 144. Impairment or disposal of long-lived assets losses are recognized in the period the impairment or disposal occurs. Long-lived assets are reduced to their estimated fair value.

DEFERRED TAXES. We record a valuation allowance to reduce deferred tax assets when it is more likely than not that some portion of the amount may not be realized. During 2003, we determined that it was no longer more likely than not that we would be able to realize all or part of our net deferred tax asset in the future, and an adjustment to provide a valuation allowance against the deferred tax asset that as charged to income.

RESULTS OF OPERATIONS

Sales

Sales for the three-month period ended March 31, 2005 were $18,800, compared to revenues of $4,700 for the three-month period ended March 31, 2004. We discontinued the sale of select services from our prototype StreamHQ(TM) after customers' satisfaction and proof of concept. We no longer sell our individual functions of StreamHQ(TM) We intend to continue to develop and expand our StreamHQ(TM) services business, while pursuing opportunities to sell replicated StreamHQ(TM) systems to corporations and, organizations that prefer systems solutions to services.

Cost of Sales

The cost of sales for the three months ended March 31, 2005 was $5,000, as compared to $3,379 for the comparable period of 2004. The increase in cost of sales is directly attributable to the increase in sales.

Selling, General and Administrative Expenses

Selling, general and administrative expenses consisted of product marketing expenses, consulting fees, office, professional fees and other expenses to execute the business plan and for our day-to-day operations. Management continues to carry out due diligence in our patent infringement suit, which has increased operating costs.

Selling, general and administrative expenses for the three months ended March 31, 2005 increased $20,129 to $223,239 from $203,110 for the three months ended March 31, 2004. The increase was the result of expenses incurred related to the patent infringement suit.

Professional fees for the three months ended March 31, 2005, increased to $133,249 from $27,666 for the comparable period of 2004. The increase was due to due diligence carried out in our patent infringement suit.

Product marketing expenses for the three months ended March 31, 2005 was $16,011, as compared to $37,940 for the comparable period of 2004. The decrease was due to management decision to change the Company's marketing plan.

The Company has arranged for additional staff and consultants to engage in marketing activities in an effort to identify and assess appropriate market segments, develop business arrangements with prospective partners, create awareness of new products and services, and communicate to the industry and potential customers Other components of selling, general and administrative expense did not change significantly.

Research and Development Expenses

Research and development expenses consisted primarily of contractors, compensation, hardware, software, licensing fees, and new product applications for our proprietary MediaSentinel(TM) technology. Research and development expenses decreased to $52,000 for the three months ended March 31, 2005, from $61,202 for the comparable period in 2004. We are continuing to develop our MediaSentinel(TM) technology.

Non-Cash Compensation Charges

Non-cash compensation charges for the three months ended March 31, 2005 and 2004 of $3,000 and $46,500, respectively, was due to the issuance of common shares and share purchase warrants to our officers, directors and employees at a price or exercise price below the market price of the common shares at the time of issuance. Because the rules of the TSX Venture Exchange require that the offering price for privately placed securities of listed companies be set when the offering is first announced, rather than upon closing, and the market price of the common shares increased between announcement of the offering and closing, the sale price of the common shares and the exercise price of the warrants were below the market price of the common shares on the date of issuance.

Net Losses

To date, we have not achieved profitability and, we expect to incur substantial net losses for the remainder of 2005. Our net loss for the three months ended March 31, 2005 was $261,707, compared with a net loss of $264,711 for the three months ended March 31, 2004. Although the net losses were not significantly different between the three months ended March 31, 2005 and March 31, 2004, the expenses related to the patent infringement lawsuit for the three months ended March 31, 2005 were significantly higher than the same period in 2004 and the marketing costs for the three months ended March 31, 2004 were significantly higher than the same period in 2005 and.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2005, we had a cash position of $3,543, compared to $9,341 at December 31, 2004.

We will require additional financing to fund current operations through the remainder of 2005. We have historically satisfied our capital needs primarily by issuing equity securities. We will require an additional $1.0 million to $1.5 million to finance operations through fiscal 2005 and we intend to seek such financing through sales of our equity securities.

Assuming the aforementioned $1.0 million to $1.5 million in financing is obtained, we believe that continuing operations for the longer term will be supported through anticipated licensing revenues and through additional sales of our securities. We have no binding commitments or arrangements for additional financing, and there is no assurance that we will be able to obtain any additional financing on terms acceptable to us, if at all.

OFF-BALANCE SHEET ARRANGEMENTS

We do not maintain any off-balance sheet transactions, arrangements, or obligations that are reasonably likely to have a material effect on our financial condition, results of operations, liquidity, or capital resources.

FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

Certain risks and uncertainties could cause actual results to differ materially from the results contemplated by the forward-looking statements contained in this Report. Risks and uncertainties have been set forth in our Annual Report on Form 10-K, as well as in other documents we file with the SEC. These risk factors include the following:

OUR ABILITY TO CONTINUE AS A GOING CONCERN: WE HAVE INCURRED SUBSTANTIAL LOSSES; WE EXPECT TO INCUR LOSSES IN THE FUTURE, AND MAY NEVER ACHIEVE PROFITABILITY.

To date, we have not been profitable, have not generated significant revenue from operations, and have incurred substantial losses. For the three months ended March 31, 2005, we had a net loss of $261,707. As of March 31, 2005, we had an accumulated deficit of $33,539,398 and a working capital deficit of $541,129. We intend to continue to expend significant financial and management resources on the development of our proposed products and services, and other aspects of our business. As a result, we expect operating losses and negative cash flows to increase for the foreseeable future. Consequently, we will need to generate significant revenues to achieve and maintain profitability. We may be unable to do so. If our revenues grow more slowly than anticipated or if operating expenses increase more than expected, or are not reduced sufficiently, we may never achieve profitability.

OUR LIMITED OPERATING HISTORY MAKES IT DIFFICULT TO EVALUATE OUR BUSINESS AND PROSPECTS.

Our business and prospects must be considered in light of the risks encountered by companies in their early stages of development, particularly companies in new and rapidly evolving markets such as streaming media.

IF WE ARE UNABLE TO OBTAIN SUBSTANTIAL ADDITIONAL FINANCING IN THE NEXT FEW MONTHS WE MAY NOT BE ABLE TO MAINTAIN OPERATIONS AT CURRENT LEVELS.

We require substantial additional financing to maintain operations at current levels for fiscal 2005. Financing may not be available when needed on terms favorable to us, or at all. If adequate funds are not available or are not available on acceptable terms, we may be unable to further develop or enhance our products and services, take advantage of future opportunities or respond to competitive pressures, or ultimately, to continue in business.

CONTINUATION OF THE CURRENT SLUMP IN THE TECHNOLOGY SECTOR WILL ADVERSELY AFFECT DEMAND FOR OUR PRODUCTS AND SERVICES.

Our sales have been adversely affected by the ongoing slump in the technology industry segment and the continuation of these market conditions can be expected to result in depressed demand for our products and services.

OUR OPERATING RESULTS IN FUTURE PERIODS ARE EXPECTED TO BE SUBJECT TO SIGNIFICANT FLUCTUATIONS, WHICH WOULD LIKELY AFFECT THE TRADING PRICE OF OUR COMMON SHARES.

Factors that could cause such fluctuations include our ability to attract and retain customers; the introduction of new video transmission services or products by others; price competition; the continued development of and changes in the streaming media market; our ability to remain competitive in our product and service offerings; our ability to attract new personnel; and potential U.S. and foreign regulation of the Internet.

WE ARE SUBJECT TO RAPID TECHNOLOGICAL CHANGE, WHICH COULD RENDER OUR PRODUCTS AND SERVICES OBSOLETE.

Keeping pace with the technological advances may require substantial expenditures and lead time, particularly with respect to acquiring updated hardware and infrastructure components of its systems. We may require additional financing to fund such acquisitions. Any such financing may not be available on commercially reasonably terms, if at all, when needed.

IF WE DO NOT CONTINUOUSLY IMPROVE OUR TECHNOLOGY IN A TIMELY MANNER, OUR PRODUCTS COULD BE RENDERED OBSOLETE.

These changes and developments may render our products and technologies obsolete in the future. As a result, our success depends on our ability to develop or adapt products and services or to acquire new products and services that can compete successfully. There can be no assurance that we will be successful in these efforts.

WE INTEND TO ISSUE ADDITIONAL EQUITY SECURITIES, WHICH MAY DILUTE THE INTERESTS OF CURRENT SHAREHOLDERS OR CARRY RIGHTS OR PREFERENCES SENIOR TO THE COMMON SHARES.

Accordingly, existing shareholders may experience additional dilution of their percentage ownership interest. In addition, the new equity securities may have rights, preferences or privileges senior to those of existing holders of our common shares.

COMPLIANCE WITH CHANGING REGULATION OF CORPORATE GOVERNANCE AND PUBLIC DISLCOSURE MAY RESULT IN ADDITIONAL EXPENSES.

Changing laws, regulations and standards relating to corporate governance and public disclosure, including the *Sarbanes-Oxley Act of 2002*, new SEC regulations and NASDAQ National Market rules, are creating uncertainty for companies such ours. These new or changed laws, regulations and standards are subject to varying interpretations in many cases due to their lack of specificity, and as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies, which could result in continuing uncertainty regarding compliance matter and higher costs necessitated by ongoing revisions to disclosure and governance practices. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may be harmed.

OUR STOCK PRICE IS EXTREMELY VOLATILE.

The trading price of our common stock has been subject to very wide fluctuations which may continue in the future in response to, among other things, the following:

- signing or not signing new licensees;
- new litigation or developments in current litigation;
- announcements of technological innovations or new products, our licensees or our competitors;
- positive or negative reports by securities analysts as to our expected financial results; and
- developments with respect to patents or proprietary rights and other events or factors.

In addition, the equity markets have experienced volatility that has particularly affected the market prices of equity securities of many high technology companies and that often has been unrelated or disproportionate to the operating performance of such companies. These broad market fluctuations may adversely affect the market price of our common stock.

OUR BUSINESS MAY SUFFER IF WE CANNOT PROTECT OUR INTELLECTUAL PROPERTY.

We seeks to protect our proprietary rights through a combination of patents, trade secret and trademark laws, confidentiality procedures and contractual provisions with employees and third parties. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our products or obtain and use information that we consider as proprietary. Litigation may be necessary to enforce our intellectual property rights, to protect our trade secrets and to determine the validity and scope of the proprietary rights of others. Any litigation could result in substantial costs and diversion of management and other resources with no assurance of success and could seriously harm our business and operating results.

OUR LAWSUIT AGAINST MOVIELINK MAY RESULT IN A JUDGMENT AGAINST US IF WE ARE NOT SUCCESSFUL IN OUR MOTION FOR RECONSIDERATION

The U.S. District Court for the District of Delaware ruled in favour of Movielink, LLC on our lawsuit that alleged that Movielink, a Delaware company, has infringed and continues to infringe on our patented online movie delivery system. The decisions was based on the Court's conclusion that the record contained insufficient evidence that the Movielink system "*initiates connections*" (a requirement for infringement of our patent) in light of the Court's construction of the term "*initiates.*" We filed a motion for reconsideration on February 11, 2005, asking the Court to reconsider its ruling on that point, to decide the remaining aspects of the claim construction and the other pending motions, and to permit our case to proceed to trial. Movielink filed its opposition to our motion for the reconsideration on February 28, 2005. The parties are presently awaiting the Court's decision.

If we were to lose our motion for the reconsideration, the litigation would be concluded in the District Court. In that event, and unless the decision were appealed successfully by us, we would be liable for Movielink's "*costs*" under the Federal Rules of Evidence (including such items as deposition transcription costs, but not attorneys' fees), which could involve a loss in excess of $5,000. Additionally, Movielink has signaled its intention to argue that we initiated and have maintained the litigation in bad faith. In the event that Movielink were to prevail on such an argument, we could be exposed to a judgment for Movielink's attorney's fees – an amount which our legal counsel is not in a position to estimate but which certainly would exceed $5,000.

THERE IS NO ASSURANCE THAT OUR PATENTS WON'T BE CHALLENGED, INVALIDATED OR CIRCUMVENTED

There can be no assurance that our current or future patents, if any, will not be challenged, invalidated, or circumvented, or that any rights granted thereunder will provide competitive advantages to us. In addition, there can be no assurance that patents will be issued from pending applications, or that claims allowed on any future patents will be sufficiently broad to protect our technology. In addition, the laws of some foreign countries may not permit the protection of our proprietary rights to the same extent as do the laws of the United States. We intend to enforce its proprietary rights through the use of licensing agreements and, when necessary, litigation. Although we believe the protection afforded by our patents, patent applications, and trademarks has value, the rapidly changing technology in the video transmission industry makes our future success dependent primarily on the innovative skills, technological expertise, and management abilities of our employees rather than on patent and trademark protection.

OUR PRODUCTS MAY INFRINGE THE INTELLECTUAL PROPERTY RIGHTS OF OTHERS, CAUSING US TO INCUR SIGNIFICANT COSTS OR PREVENT US FROM LICENSING OUR PRODUCTS.

Other companies, including our competitors, may have or obtain patents or other proprietary rights that would prevent, limit or interfere with our ability to make, use or license our products. We cannot be certain that our products do not and will not infringe patents or other proprietary rights of others. We may be subject to legal proceedings, including claims of alleged infringement by us of the intellectual property rights of third parties. If a successful claim of infringement is brought against us and we fail to or are unable to license the infringed technology on commercially reasonable terms, our business and operating results could be significantly harmed. Companies in the technology market are increasingly bringing suits alleging infringement of their proprietary rights, particularly patent rights. Although we are not currently subject to any litigation or claims, any future claims, whether or not valid, could result in substantial costs and diversion of resources with no assurance of success. Intellectual property litigation or claims could force us to do one or more of the following:

- cease selling, incorporating or using products or services that incorporate the challenged intellectual property;
- obtain a license from the holder of the infringed intellectual property right, which license may not be available on commercially reasonable terms, or at all; or
- redesign our products or services.

If we are forced to take any of these actions, our business could be substantially harmed.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We believe our exposure to overall foreign currency risk is not material. We do not manage or maintain market risk sensitive instruments for trading or other purposes and are not exposed to the effects of interest rate fluctuations as we do not carry any long-term debt.

We report our operations in US dollars and our currency exposure, although considered by us as immaterial, is primarily between US and Canadian dollars. Exposure to other currency risks is also not material as international transactions are settled in US dollars. Any future financing undertaken by us will be denominated in US dollars. As we increase our marketing efforts, the related expenses will be primarily in US dollars. In addition, 90% of our bank deposits are in US dollars.

Item 4. Controls and Procedures

Based on their evaluation of the effectiveness of our disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report, our undersigned officers have concluded that such disclosure controls and procedures are adequate. There were no significant changes in internal controls or in other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses, subsequent to the date of the most recent evaluation by our undersigned officers of the design and operation of internal controls which could adversely affect our ability to record, process, summarize and report financial data.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On April 10, 2003, we announced that our subsidiary, USA Video Technology Corporation, had filed a lawsuit in the U.S. District Court for the District of Delaware against Movielink, LLC. We allege that Movielink, a Delaware company, has infringed and continues to infringe on our patented online movie delivery system.

On January 28, 2005, the Court issued an opinion and order granting summary judgment in favor of Movielink, based on the Court's conclusion that the record contained insufficient evidence that the Movielink system "*initiates connections*" (a requirement for infringement of the Company's patent) in light of the Court's construction of the term "*initiates*." We filed a motion for reconsideration on February 11, 2005, asking the Court to reconsider its ruling on that point, to decide the remaining aspects of the claim construction and the other pending motions, and to permit our case to proceed to trial. Movielink filed its opposition to our motion for the reconsideration on February 28, 2005. The parties are presently awaiting the Court's decision.

At this time, our legal counsel is not able to conclude that it is either "*probable*" or "*remote*" (as those terms are defined in the Statement of Policy) that the Court will reconsider its January 28, 2005 summary judgment decision in favor of Movielink, and, accordingly expresses no opinion as to the outcome of this matter.

If we were to lose our motion for the reconsideration, the Litigation would be concluded in the District Court. In that event, and unless the decision were appealed successfully by us, we would be liable for Movielink's "*costs*" under the Federal Rules of Evidence (including such items as deposition transcription costs, but not attorneys' fees), which could involve a loss in excess of $5,000. Additionally, Movielink has signaled its intention to argue that we initiated and have maintained the litigation in bad faith. In the event that Movielink were to prevail on such an argument, we could be exposed to a judgment for Movielink's attorney's fees – an amount which our legal counsel is not in a position to estimate but which certainly would exceed $5,000.

We are party to a default judgment entered against one of our subsidiaries. During the year ended December 31, 1995, a claim was made to us for the total amount payable under the terms of the lease with our subsidiaries for office space in Dallas, Texas through 2002. We are of the opinion that the amount payable under the terms of this judgment is not estimable or determinable at this time and may be substantially mitigated by the landlord renting the property to another party. The range of possible loss is from $0 to approximately $500,000.

Item 2. Changes in Securities and Use of Proceeds

During the quarter ended March 31, 2005, we completed an offering of 1,500,000 units at a price of $0.10 per unit for total proceeds of $150,000. Each unit consisted of one share of common stock and one warrant to acquire one additional share at $0.13 per share, exercisable on or before February 25, 2007.

The offer and sale of the units were exempt from registration pursuant to section 4(2) of the Securities Act, Rule 701 and Rule 506 of Regulation D promulgated thereunder. We limited the manner of the offering and provided disclosure regarding the offering and our company to the investors. Two of our officers and directors, one employee, one additional unaffiliated non-accredited investor, and four additional unaffiliated accredited investors purchased the securities. We believe that a portion of these sales were also exempt under Regulation S under the Securities Act, as such sales were made in offshore transactions to non-U.S. persons.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibit(s)

31.1 Certification of the Chief Executive Officer 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*

31.2 Certification of the Chief Financial Officer 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*

32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*

32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the *Sarbanes-Oxley Act of 2002*

(b) Reports on Form 8-K

(i) On January 10th, 2005, we announced the appointment of Rowland Perkins, as a director. Mr. Perkins is the President and a director of eBackup Inc., a Calgary based company which provides customers with full back up, archiving, data management and restoration of electronic data by hard-wired or wireless internet or dedicated Virtual Private Network access to its computers and systems. Mr. Perkins was also granted a stock option to purchase up to an aggregate of 150,000 shares at any time on or before January 10, 2007, at an exercise price of $0.35 Cdn. ($0.29 US) per share. Mr. Perkins was appointed as an independent member of the Audit Committee.

(ii) On January 31st, 2005, we announced that the Honorable Judge Kent A. Jordan of the U.S. District Court for the District of Delaware entered an order of summary judgment against us in our patent infringement litigation against Movielink LLC. It is the court's determination that Movielink does not infringe our U.S. patent No. 5,130,792 because of the way certain components of Movielink's accused system operate.

SIGNATURE

Pursuant to the requirements of the *Securities Exchange Act of 1934*, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

USA VIDEO INTERACTIVE CORP.

Dated: May 13th, 2005

By: /s/ *Anton J. Drescher*

Name: Anton J. Drescher
Title: Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER 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, Edwin Molina, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Video Interactive Corp;

2. Based on my knowledge, this quarterly 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 quarterly report;

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

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

   a) designed such disclosure controls and procedures 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 as of a date within 90 days prior to the filing date of this quarterly report (the "*Evaluation Date*"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: /s/ *Edwin Molina*

Name: Edwin Molina

Title: President and Chief Executive Officer

Date: May 13th, 2005

Exhibit 31.2

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER 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, Anton J. Drescher, certify that:

1. I have reviewed this quarterly report on Form 10-Q of USA Video Interactive Corp;

2. Based on my knowledge, this quarterly 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 quarterly report;

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

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

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entitles, particularly during the period in which this quarterly report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "*Evaluation Date*"); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

By: */s/ Anton J. Drescher*

Name: Anton J. Drescher
Title: Secretary and Chief Financial Officer
Date: May 13th, 2005

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 Quarterly Report of USA Video Interactive Corp. (the "*Company*") on Form 10-Q for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Edwin Molina, 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:

1. this report fully complies with the requirements of Sections 13(a) or 15(d) of the 1934 Act, and

2. the information contained in this report fairly presents, in all material respects, the registrant's financial condition and results of operations of the registrant.

By: /s/ *Edwin Molina*

Name: Edwin Molina
Title: President and Chief Executive Officer
Date: May 13th, 2005

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 Quarterly Report of USA Video Interactive Corp. (the "*Company*") on Form 10-Q for the period ended March 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), I, Anton J. Drescher, 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:

1. this report fully complies with the requirements of Sections 13(a) or 15(d) of the 1934 Act, and

2. the information contained in this report fairly presents, in all material respects, the registrant's financial condition and results of operations of the registrant.

By: */s/ Anton J. Drescher*

Name: Anton J. Drescher
Title: Secretary and Chief Financial Officer
Date: May 13th, 2005

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

FORM 10-Q

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

For the quarterly period ended March 31, 2005

Commission file number: 0-29651

USA VIDEO INTERACTIVE CORP.
(Exact name of registrant as specified in its charter)

WYOMING	**06-1576391**
(State or Other Jurisdiction of	*(I.R.S. Employer Identification No.)*
	Incorporation or Organization)

83 Halls Road – P.O. Box 245, Old Lyme, Connecticut	**06355**
(Address of principal executive offices)	*(ZIP code)*

(860) 434-5535
(Registrant's Telephone Number, including Area Code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the *Securities Exchange Act of 1934* during the preceding 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 |X| No |_|

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes |_| No |X|

At May 12th, 2005, there were 133,698,096 shares of the registrant's common stock outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements