

VendTek Systems Inc.
Consolidated Financial Statements
For the Three and Nine Months Ended
July 31, 2006 and 2005
(unaudited)

VendTek Systems Inc.

Consolidated Balance Sheets

	July 31, 2006 \$ (unaudited)	October 31, 2005 \$
Assets		
Current Assets		
Cash and cash equivalents	1,559,388	246,616
Accounts receivable	303,110	1,198,892
Inventory (Note 3)	822,117	763,409
Prepaid expenses and deposits	25,207	4,722
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	2,709,822	2,213,639
Property and Equipment (Note 4)	377,445	204,495
Intangible Assets (Note 4)	21,133	21,491
Deferred Financing Costs (Note 5)	-	17,166
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	3,108,400	2,456,791
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	1,617,642	2,665,120
Current portion of long-term debt (Note 5)	1,868	495,811
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	1,619,510	3,161,902
Long-term Debt (Note 5)	6,386	7,523
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	1,625,896	3,168,454
Shareholders' Equity (Deficit)		
Share Capital (Note 6)	6,605,181	5,153,012
Contributed Surplus	370,334	147,900
Equity Portion of Convertible Debt (Note 5)	34,000	34,000
Deficit	(5,527,011)	(6,046,575)
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	1,482,504	(711,663)
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	3,108,400	2,456,791
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(See accompanying notes to the consolidated financial statements)

Approved on behalf of the Board:

/s/ "Doug Buchanan"
Doug Buchanan, President and CEO

/s/ "Stuart Wooldridge"
Stuart Wooldridge, Director

VendTek Systems Inc.

Consolidated Statements of Operations and Deficit

For the Three Months and Nine Months Ended July 31, 2006 and 2005

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenue (<i>Schedule</i>)	14,899,228	10,718,345	41,191,428	26,603,975
Direct Costs (<i>Schedule</i>)	13,835,641	10,196,483	38,660,342	25,579,259
Gross Profit	1,063,587	521,862	2,531,086	1,024,716
Expenses (<i>Schedule</i>)				
General and administrative	531,727	335,775	1,491,369	1,046,784
Engineering	96,922	71,922	261,077	200,074
Selling and marketing	114,905	36,900	259,073	77,866
	743,554	444,597	2,011,519	1,324,724
Net Income (Loss) For the Period	320,033	77,265	519,567	(300,009)
Deficit - Beginning of Period	(5,847,041)	(6,039,493)	(6,046,575)	(5,662,219)
Deficit - End of Period	(5,527,008)	(5,962,228)	(5,527,008)	(5,962,228)
Net Income (Loss) Per Share – Basic and Diluted	0.01	-	0.01	(0.01)
Weighted Average Shares Outstanding	37,748,044	32,401,000	37,748,044	32,401,000

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Three Months and Nine Months Ended July 31, 2006 and 2005

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2006 \$	2005 \$	2006 \$	2005 \$
Revenue				
License and engineering	36,232	374	137,992	9,942
Prepaid PIN	14,837,548	10,692,249	40,939,882	26,523,678
Systems and parts sales	25,448	25,722	113,554	70,355
	<u>14,899,228</u>	<u>10,718,345</u>	<u>41,191,428</u>	<u>26,603,975</u>
Direct Costs				
Commissions	263,991	182,468	703,718	422,159
Direct labour	35,510	33,424	199,704	109,183
Foreign exchange	(7,536)	4,143	6,895	8,706
Freight, shipping and customs	13,686	4,920	51,282	10,972
Purchases, net of rebates	13,477,598	9,938,589	37,562,691	24,997,033
Subcontract and miscellaneous	52,393	32,939	136,054	31,206
	<u>13,835,642</u>	<u>10,196,483</u>	<u>38,660,342</u>	<u>25,579,259</u>
General and Administrative Expenses				
Accounting, legal and regulatory fees	29,145	9,984	62,995	59,142
Amortization of deferred financing costs	9,238	3,964	17,166	11,892
Amortization of intangible assets	1,632	1,321	4,889	3,962
Amortization of property, plant and equipment	47,294	29,596	120,517	82,087
Bad debts	7,666	(10)	8,636	6,622
Bank charges and interest	6,786	5,161	15,008	14,842
Computer	2,787	2,516	12,700	11,055
Interest on long-term debt	26,599	14,391	54,616	42,269
Investor relations	17,308	7,640	48,211	22,247
Office and miscellaneous	45,515	43,694	110,049	112,192
Rent and utilities (Note 9)	24,756	23,212	80,535	77,160
Salaries and benefits	181,154	163,018	590,349	499,152
Stock-based compensation	82,273	3,336	222,432	10,008
Telecommunications	39,941	26,943	108,162	75,332
Travel and promotion	9,633	1,009	35,104	18,822
	<u>531,727</u>	<u>335,775</u>	<u>1,491,369</u>	<u>1,046,784</u>
Engineering Expenses				
Wages and benefits	96,922	71,922	261,077	200,074
Selling and Marketing Expenses				
Advertising, promotion and trade shows	9,227	1,993	17,581	18,477
Travel	56,366	34,907	134,791	56,321
Wages and benefits	49,312	-	106,701	3,068
	<u>114,905</u>	<u>36,900</u>	<u>259,073</u>	<u>77,866</u>

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Three Months and Nine Months Ended July 31, 2006 and 2005

(unaudited)

	Three months ended July 31,		Nine months ended July 31,	
	2006 \$	2005 \$	2006 \$	2005 \$
Operating Activities				
Net Income (Loss) for the period	320,033	77,265	519,567	(300,009)
Items not involving cash				
Accretion of convertible debenture to face value	3,400	1,700	6,800	5,100
Amortization of deferred finance charges	9,238	3,964	17,166	11,892
Amortization of intangible assets	1,632	1,321	4,889	3,962
Amortization of property and equipment	47,294	29,596	120,517	82,087
Stock-based compensation	82,273	3,336	222,432	10,008
Changes in non-cash operating working capital items				
Accounts receivable	1,030,183	(307,246)	895,782	(348,950)
Inventory	16,285	(108,091)	(58,708)	(277,751)
Prepaid expenses and deposits	(12,520)	183	(20,485)	(1,041)
Accounts payable and accrued liabilities	(265,003)	287,567	(1,047,478)	556,727
Net Cash Used in Operating Activities	1,232,815	(10,405)	660,482	(257,975)
Investing Activities				
Purchase of property and equipment	(72,834)	(16,668)	(294,632)	(63,045)
Purchase of intangible assets	-	-	(3,121)	-
Net Cash Provided By Investing Activities	(72,834)	(16,668)	(297,753)	(63,045)
Financing Activities				
Repayment of capital lease obligations	(717)	(4,917)	(1,880)	(8,315)
Repayment of convertible debenture	(500,000)	-	(500,000)	-
Proceeds from options exercised	30,000	-	117,580	-
Proceeds from warrants exercised	-	-	1,334,589	-
Net Cash Provided By Financing Activities	(470,717)	(4,917)	950,289	(8,315)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(693)	-	(246)	-
Increase (Decrease) in Cash and Cash Equivalents	688,570	(31,990)	1,312,772	(329,335)
Cash and Cash Equivalents - Beginning of Period	870,818	211,098	246,616	508,443
Cash and Cash Equivalents - End of Period	1,559,388	179,108	1,559,388	179,108
Supplemental Disclosures				
Income taxes paid				
Interest paid	(8,025)	12,263	20,046	42,269

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

1. Nature of Operations and Continuance of Business

VendTek Systems Inc. (the "Company") develops and licenses transaction automation system software and supporting technologies focusing primarily in the prepaid telecom and financial services industries. The Company is commercializing its products through its wholly-owned subsidiaries, Now Prepay Corp. (Canada), VendTek Systems Technologies (Beijing) Co., Ltd., and VendTek Systems Asia Pacific (Singapore) Pte. Ltd.

VendTek's e-Fresh™ products provide infrastructure to service providers, retailers and retail distributors allowing them to distribute electronic products and services with increased efficiency. By licensing to its customers, the Company is developing sources of recurring license revenues from a global and growing market.

As part of the Company's strategy to develop recurring sources of revenues from the e-Fresh™ software, the Company has developed its own electronic distribution business across Canada under the Now Prepay™ brand and the Now Prepay Corp. subsidiary. Now Prepay is using e-Fresh to distribute cellular and long distance products. Now Prepay Corp. sells its own branded long distance products: Now#1 and Connect Now. The Now Prepay business is generating rapidly growing recurring revenues from the sale of these prepaid services through the e-Fresh™ network it has created. Now Prepay is currently generating the majority of VendTek's revenues. These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. Over the past five years the Company had incurred significant operating losses, however as of July 31, 2006, VendTek had working capital of \$1,090,000 compared to a deficiency of \$948,000 as of October 31, 2005; an increase in capital of \$2,038,000. Management is of the opinion that current cash position and cash provided by on-going operations will be adequate to meet the Company's needs.

Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company's liabilities and commitments as they become due. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

2. Summary of Significant Accounting Policies

a) Basis of consolidation and presentation

These financial statements include the accounts of the Company and its wholly owned Canadian subsidiaries, VendTek Industries Inc., and Now Prepay Corp. VendTek Industries Inc. owns VendTek International Inc. (a U.S. company), which is inactive and has no assets. These financial statements also include the accounts of its wholly owned operating Asian subsidiaries, VendTek Systems Technologies (Beijing) Co., Ltd. and VendTek Systems Asia Pacific (Singapore) Pte. Ltd.

b) Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Significant financial statement items which involve the use of estimates, include the allowance for doubtful accounts, inventory valuation and the useful life of property, plant and equipment including intangible assets. Actual results could differ from those estimates.

c) Cash and cash equivalents

Cash and cash equivalents include: cash on hand, in banks, in lawyer's trust and all highly liquid investments with a maturity of three months or less when purchased.

d) Inventory

Inventory is carried at the lower of actual purchase cost or net realizable value.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

2. Summary of Significant Accounting Policies (continued)

e) Property and equipment

Property and equipment are stated at cost less accumulated amortization. For the assets listed below, amortization is computed on the declining balance basis over the estimated useful life of the asset at the following annual rates:

Computer hardware	30%
Computer hardware under capital lease	30%
Computer software	100%
Equipment	20%
Furniture and fixtures	20%
Office equipment	20%
Tools and dies	30%

f) Intangible assets

Intangible assets with estimated useful lives are stated at cost less accumulated amortization. Amortization is computed on a straight-line basis over five years for patents and domain names and on a straight-line basis over three years for website development costs. Website planning and operating costs are charged to operations.

g) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the undiscounted estimate of future cash flows from the asset. To July 31, 2006, no impairment losses have been recorded.

h) Foreign currency translation

The functional currency of the Company is the Canadian dollar. The financial statements of the Company's operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate in effect at the balance sheet date for assets and liabilities and at average rates for the period for revenues and expenses.

Transactions for the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date for monetary assets and liabilities, and at historical exchange rates for non-monetary assets and liabilities. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related assets. Resulting gains or losses are reflected in direct costs in the statement of operations.

i) Income taxes

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities, and are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

2. Summary of Significant Accounting Policies (continued)

i) Income taxes (continued)

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

j) Corporate financing costs

The Company accounts for the direct costs of corporate financing as follows:

(i) Issue of Equity Securities

These costs are deferred if the transaction is more likely than not to be completed. Upon completion the costs are recorded as a capital transaction and applied to reduce gross proceeds of the equity securities issued. If the transaction is abandoned the costs are charged against operations.

(ii) Issue of Debt Securities

These costs are deferred if the transaction is more likely than not to be completed. Upon completion the costs are recorded as an asset and amortized to operations straight-line over the term to maturity. If the transaction is abandoned the costs are charged against operations.

k) Financial instruments

(i) Fair values

Carrying amounts of certain of the Company's financial instruments, including cash, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short-term maturity. The fair values of capital lease obligations and long-term debt are estimated to approximate their carrying values based on borrowing rates currently available to the Company for loans with similar terms.

(ii) Foreign currency risk

Foreign currency risk reflects the risk that the Company's foreign currency denominated net assets or operations will be negatively impacted due to fluctuations in exchange rates. Revenue and expenses of the Company denominated in foreign currencies come due in the short-term and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations. The Company does not have foreign currency hedges in place.

(iii) Credit risk

Financial instruments subjecting the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with high quality financial institutions.

The Company's customers are concentrated in Canada, United Arab Emirates and China. As at July 31, 2006, 18% (2005 – 28%) of the Company's accounts receivable are with one customer. The Company performs ongoing credit evaluations, generally does not require collateral and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

2. Summary of Significant Accounting Policies (continued)

l) Revenue recognition

The Company's revenue is comprised of four sources: systems and parts sales, license and engineering revenue, commission revenue, and the resale of prepaid telecommunication services, principally from the sale of prepaid calling and prepaid cellular services. Revenue is recognized in accordance with EIC-141, "Revenue Recognition". Revenue is recognized when a contractual arrangement is in place, the fee is fixed and determinable, and the products and services have been delivered to the customer.

The resale of prepaid telecommunication services – sales where the Company incurs inventory risk are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on the gross basis with the cost of inventory recorded as direct costs because of the risk of carrying inventory.

The resale of prepaid telecommunication services – sales where the Company earns commissions on services sold and does not incur inventory risk - are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on a net basis and account for \$200,678 of revenue in the first nine months of fiscal 2006.

m) Stock-based compensation

Effective January 1, 2002, the Company applied the fair value based method of accounting prescribed by CICA Handbook Section 3870, Stock-based Compensation and Other Stock based Payments, only to employee stock appreciation rights, and applied the settlement method of accounting to employee stock options. Under the settlement method, any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital and no compensation expense was recognized.

The CICA Accounting Standards Board amended CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments – to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. Under the fair value based method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Company has retroactively applied the fair value based method to all employee stock options granted or repriced on or after January 1, 2002.

n) Earnings (Loss) per share

Basic net earnings (loss) per share are computed using the weighted average number of common shares outstanding during the periods. The treasury stock method is used for the calculation of diluted net earnings (loss) per share. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. As the Company has recorded a net loss in each of the periods presented, basic and diluted net loss per share are the same since the exercise of warrants or options or the conversion of convertible securities would reduce the loss per share.

(o) Interim Financial Statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

3. Inventory

	July 31, 2006	October 31, 2005
	\$	\$
Finished goods	2,883	928
Prepaid products and services	810,104	754,272
Raw materials	9,130	8,209
	<u>822,117</u>	<u>763,409</u>

4. Property and Equipment and Intangible Assets

	Cost \$	Accumulated Amortization \$	July 31, 2006 Net Carrying Value \$	October 31, 2005 Net Carrying Value \$
Property and Equipment				
Computer hardware	343,736	275,445	68,291	57,289
Computer hardware under capital lease	11,694	5,053	6,641	8,185
Computer software	29,000	27,283	1,717	2,688
Equipment	445,755	156,185	289,570	124,335
Furniture and fixtures	10,636	5,977	4,659	4,654
Office equipment	17,998	11,432	6,566	7,344
	<u>858,819</u>	<u>481,375</u>	<u>377,444</u>	<u>204,495</u>
Intangible Assets				
Domain names and patent costs	71,710	53,443	18,267	21,491
Web Site Development	3,121	255	2,866	-
	<u>74,831</u>	<u>53,698</u>	<u>21,133</u>	<u>-</u>

5. Long-term Debt

	July 31, 2006	October 31, 2005
	\$	\$
Convertible Debentures – See below	-	493,200
Capital Leases - capital leases in respect of computer equipment mature in March 2010 and bears interest at a weighted average rate of 8.4%	8,254	10,134
	<u>8,254</u>	<u>503,334</u>
Less: Current portion of long-term debt	(1,868)	(495,811)
	<u>6,386</u>	<u>7,523</u>

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

5. Long-term Debt (continued)

Convertible Debentures

On November 29, 2001, the Company completed a convertible debenture financing. The Company received \$500,000 and issued \$500,000 of redeemable convertible debentures with a principal amount of \$1,000 each to one investor. A 7% cash finders' fee was paid. Costs of completing this transaction, totalling \$76,346, were deferred and were amortized to operations over the five-year term. The debentures attracted interest at a rate of 9½% per annum. The debenture matured and was redeemed for \$500,000 on June 30, 2006. These debentures were convertible, at the option of the holder, into common shares at the following rates:

- i) July 1, 2004 to June 30, 2005 - \$4.00 per share
- ii) July 1, 2005 to June 30, 2006 - \$5.00 per share

The estimated equity value of the conversion feature of the debentures totalling \$34,000 was included as a separate component of shareholders' equity. The equity component was calculated as the difference between the gross proceeds received by the Company and the discounted cash flow of repayments based on an annual rate of 12%, which was consistent with similar borrowings available to the Company, without conversion features. The remaining portion of \$466,000 was classified as a long-term liability. The debt component was accreted to its face value at maturity over the term of the debt through a charge to interest expense.

6. Share Capital

Authorized:

100,000,000 common shares without par value

	Number of Shares	Value \$
Issued at October 31, 2005	34,151,496	5,153,012
Warrants exercised	6,672,945	1,334,589
Options exercised	587,900	117,580
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Issued at July 31, 2006	41,412,341	6,605,181

7. Share Purchase Warrants

The following table summarizes the continuity of the Company's warrants:

	Number of shares	Weighted average exercise price \$
Balance, October 31, 2005	6,939,314	0.20
Exercised	(6,672,945)	0.20
Expired	(266,369)	0.20
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Balance, July 31, 2006	—	—

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three and Nine Months Ended July 31, 2006 and 2005

8. Stock Options

The Company has a Stock Option Plan (the "Plan") whereby it may grant options to its directors, officers and employees. The terms and conditions of options granted under the Plan are determined solely by the Board of Directors. Options are generally granted with a term of five years and vest over eighteen months, with exercise prices equal to the fair value of the shares on the date of grant.

The following table summarizes the continuity of the Company's stock options:

	Number of shares	Weighted average exercise price \$
Outstanding, October 31, 2005	4,410,900	0.20
Granted	50,000	0.30
Granted	100,000	0.35
Exercised	(437,900)	0.20
Outstanding, April 30, 2006	4,123,000	
Exercised	(150,000)	0.20
Outstanding, July 31, 2006	3,973,000	

9. Related Party Transactions

The Company paid rent of \$36,937 (2005- \$38,440) to a company in which a director has a minority interest. The Company's premise lease with this related company expired on October 31, 2001, and is currently on a month-to-month basis. This transaction was in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as a transaction with unrelated parties.

10. Segmented Information

The Company operates in one industry and two geographic segments, being Canada and Asia. The accounting policies of the segments are the same as those described in Note 2.

	Canada		Asia	Grand Total
	Now Prepay Corp.	VSI/VTI	VST/VAP	
	\$	\$	\$	\$
Q1, Q2 & Q3 2006				
Revenue	40,958,618	206,768	26,042	41,191,428
Amortization	81,636	55,453	5,483	142,572
Segment operating income (loss)	585,200	37,761	(103,394)	519,567
Segment assets	163,567	188,938	46,073	398,578
Q1, Q2 & Q3 2005				
Revenue	26,547,838	38,219	17,918	26,603,975
Amortization	39,582	56,083	2,276	97,941
Segment operating loss	144,837	(319,196)	(125,650)	(300,009)
Segment assets	1,879,131	146,523	49,464	2,075,118

11. Economic Dependence

The Company had one customer that accounted for 18% (2005 – 28%) of total revenues.