

Consolidated Financial Statements of

**VendTek Systems Inc.**

Years ended October 31, 2007 and 2006



**DALE MATHESON  
CARR-HILTON LABONTE LLP**  
**DMCL CHARTERED ACCOUNTANTS**

Partnership of:

<b>Vancouver</b>	Robert J. Burkart, Inc. Alvin F. Dale Ltd. Robert J. Matheson, Inc.	James F. Carr-Hilton Ltd. Barry S. Hartley, Inc. Rakesh I. Patel Inc.	Kenneth P. Chong Inc. Reginald J. LaBonte Ltd.
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<b>Port Coquitlam</b>	Wilfred A. Jacobson Inc.	Fraser G. Ross, Ltd.	Brian A. Shaw Inc.

## AUDITORS' REPORT

To the Shareholders of  
VendTek Systems Inc.

We have audited the consolidated balance sheets of VendTek Systems Inc. as at October 31, 2007 and 2006 and the consolidated statements of operations and deficit and cash flows for the years then ended. 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 audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

DALE MATHESON CARR-HILTON LABONTE LLP  
CHARTERED ACCOUNTANTS

Vancouver, Canada  
February 8, 2008

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# VendTek Systems Inc.

Consolidated Balance Sheets

October 31, 2007 and 2006

	2007	2006
<b>Assets</b>		
Current Assets		
Cash	\$ 329,431	\$ 763,664
Accounts receivable	3,357,431	1,985,832
Inventories (note 3)	4,820,339	1,102,654
Prepaid expenses and deposits	27,401	14,467
Future income tax asset (note 7)	91,948	170,500
	8,626,550	4,037,117
Equipment (note 4)	932,063	328,170
Intangible Assets (note 6)	805,753	19,689
Goodwill (note 5)	522,349	-
	\$ 10,886,715	\$ 4,384,976
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 5,983,508	\$ 1,950,831
Income taxes payable (note 7)	83,800	135,137
Current portion of capital lease obligations (note 8)	148,926	272,698
	6,216,234	2,358,666
Capital lease obligations (note 8)	50,553	79,325
	6,266,787	2,437,991
<b>Shareholders' Equity</b>		
Share Capital (note 9)	7,990,337	6,804,081
Contributed Surplus	1,156,204	438,545
Deficit	(4,526,613)	(5,295,641)
	4,619,928	1,946,985
	\$ 10,886,715	\$ 4,384,976

Commitments [note 11]

See accompanying notes to the consolidated financial statements.

Approved on Behalf of the Board:

\_\_\_\_\_  
Stuart Wooldridge, Director

\_\_\_\_\_  
Paul Brock, Director

## VendTek Systems Inc.

Consolidated Statements of Operations and Deficit

For the years ended October 31, 2007 and 2006

	2007	2006
Revenues		
Prepaid telecommunication	\$ 89,850,450	\$ 57,600,072
Hardware and equipment	82,109	171,890
Software license and services	890,389	246,116
	<u>90,822,948</u>	<u>58,018,078</u>
Cost of revenues		
Prepaid telecommunication	85,140,337	54,451,829
Hardware and equipment	63,371	31,625
	<u>85,203,708</u>	<u>54,483,454</u>
	<u>5,619,240</u>	<u>3,534,624</u>
Operating Expenses		
General and administrative	3,183,671	1,806,132
Selling and marketing	484,185	422,790
Research and development	472,995	359,452
Amortization	373,952	175,158
Interest on capital lease obligations	157,238	55,521
	<u>4,672,041</u>	<u>2,819,053</u>
Earnings before income taxes	947,199	715,571
Income tax expense (recovery) (note 7)		
Current	129,571	135,137
Future	48,600	(170,500)
	<u>178,171</u>	<u>(35,363)</u>
Net earnings	769,028	750,934
Deficit - Beginning	(5,295,641)	(6,046,575)
Deficit - Ending	<u>\$(4,526,613)</u>	<u>\$ (5,295,641)</u>
Basic and fully diluted net earnings per share (note 13)	\$ 0.02	\$ 0.02
Weighted average shares outstanding		
Basic	43,644,736	38,597,341
Fully Diluted	<u>46,589,337</u>	<u>42,297,841</u>

See accompanying notes to the consolidated financial statements

## VendTek Systems Inc.

### Consolidated Statements of Cash Flows

For the years ended October 31, 2007 and 2006

	2007	2006
<b>Cash Flows From Operating Activities</b>		
Net earnings	\$ 769,028	\$ 750,934
Non-cash items		
Accretion of convertible debenture	-	6,800
Amortization expense	373,952	175,158
Deferred finance fees	-	17,166
Foreign exchange gain	(111,772)	-
Future income tax expense (recovery)	48,600	(170,500)
Stock-based compensation expense	738,592	290,645
Net changes in non-cash operating accounts		
Accounts receivable	(827,910)	(786,940)
Inventories	(3,361,981)	(339,245)
Prepaid expenses and deposits	(82,059)	(9,748)
Income taxes payable	(51,337)	135,137
Accounts payable and accrued liabilities	1,893,754	(703,689)
<b>Net Cash Used In Operating Activities</b>	<b>(611,134)</b>	<b>(634,282)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from options exercised	188,532	117,580
Repayment of lease obligations and long term debt	(152,544)	(158,111)
Shares issued for cash	-	164,902
Cost of issuance of shares	-	(10,000)
Share subscriptions received	335,100	-
Warrants exercised	-	1,333,989
<b>Net Cash Provided By Financing Activities</b>	<b>371,088</b>	<b>1,448,360</b>
<b>Cash Flows From Investing Activities</b>		
Purchases of equipment	(851,879)	(297,031)
Cash used in acquisition of Go Prepaid	(750,000)	-
Cash acquired on acquisition of Go Prepaid	1,407,691	-
<b>Net Cash Used In Investing Activities</b>	<b>(194,188)</b>	<b>(297,031)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>(434,234)</b>	<b>517,047</b>
<b>Cash - Beginning</b>	<b>763,664</b>	<b>246,617</b>
<b>Cash - Ending</b>	<b>\$ 329,431</b>	<b>\$ 763,664</b>
<b>Supplemental Disclosures</b>		
Interest paid	\$ 174,140	\$ 55,521
Income taxes paid	\$ 180,908	\$ -
Shares issued for Go Prepaid acquisition	\$ 641,691	\$ -

See accompanying notes to the consolidated financial statements

# VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

## 1. Nature of Operations

VendTek Systems Inc. (the "Company") was incorporated on February 23, 1988 under the British Columbia Corporation Act. The Company develops, markets and licenses automated transaction system software and supporting technologies.

VendTek's business focuses primarily in the distribution of prepaid telecom and financial services. The Company has developed its own electronic distribution business across Canada and also does business under the name Now Prepay. The Company distributes cellular and long distance products through its network and generates revenues by selling these products to its customers using its proprietary e-Fresh™ software.

## 2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

### a) Basis of consolidation and presentation

The consolidated financial statements include the accounts of VendTek Systems Inc. and its wholly owned Canadian subsidiaries: VendTek Industries Inc., and Go Prepaid Inc. ("Go Prepaid") (Note 5). 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 the Company's wholly-owned operating subsidiaries, VendTek Systems Technologies (Beijing) Co., Ltd., VendTek Systems Asia Pacific (Singapore) Pte. Ltd. and Gulf Payment Networks.

### 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 determination of the fair value of stock-based transactions and financial instruments, fair value allocations in accounting for business combination transactions, tax provisions, inventory valuation, asset retirement obligation determinations and the useful lives of depreciation and amortization for equipment and intangible assets. Actual results could differ from those estimates.

### c) Inventories

Inventories are carried at the lower of actual purchase cost or net realizable value.

### d) Equipment

Equipment is recorded at cost. Amortization is computed on the declining balance basis over the estimated useful lives of the assets at the annual rates below. During fiscal 2007 management revised the amortization of equipment acquired in the year from a full year amortization to a pro-rated amount based on the number of months of usage.

# VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

## 2. Summary of Significant Accounting Policies (continued)

### e) Equipment (continued)

Computer hardware	30%
Computer software	100%
Equipment	30%
Furniture and fixtures	20%
Office equipment	20%

### f) Goodwill and intangible assets resulting from acquisitions

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is recorded on a reporting unit basis and is not subject to amortization. The carrying value of goodwill is tested annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Goodwill would be reduced with an impairment provision if its carrying value exceeds its estimated fair value.

Intangible assets (acquired either individually or with a group of other assets) are recorded at assigned cost. Intangible assets related to acquisitions are recorded at their estimated fair value at the acquisition date. Intangible assets that have a fixed or determinate life are amortized as follows:

Customer relationships	Straight line over 5 years
Domain names and patents	Straight line over 5 years
Web site development	Straight line over 5 years

### g) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on changes in events and circumstances that may indicate impairment such as identifiable current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use or sale 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 expected from the asset. As at October 31, 2007, no impairment losses have been recorded.

# VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

## 2. Summary of Significant Accounting Policies (continued)

### h) Foreign currency translation

The financial statements are presented in Canadian dollars. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Nonmonetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year except to the extent they relate to unrealized translation gains and losses of self-sustaining foreign subsidiaries which are reported in other comprehensive income ("OCI").

### i) Product development costs

Research costs are expensed as incurred. Development costs are deferred if they meet certain criteria specified by Canadian generally accepted accounting principles; otherwise they are expensed as incurred.

As at October 31, 2007, the Company has not deferred any development costs.

### j) 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 substantially enacted and expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset based on management's determination of the likelihood of realization.

### k) Financial instruments

On November 1, 2006, the Company adopted CICA Handbook Sections 3855, "Financial Instruments-Recognition and Measurement", Section 3861, "Financial Instruments-Disclosure and Presentation", Section 1530, "Comprehensive Income, Section 3251, "Equity" and Section 3856, "Hedges". These new accounting standards provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied. Under Section 3855, financial instruments must be classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities.

All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. Section 1530 establishes standards for reporting and presenting Other Comprehensive Income ("OCI"), which is defined as the change in equity from transactions and other events from non owner sources. OCI refers to items recognized in comprehensive income that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles. These standards have been applied prospectively. The adoption of these standards has not resulted in any adjustments to the carrying amounts of financial assets and financial liabilities at November 1, 2006.

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 2. Summary of Significant Accounting Policies (continued)

#### Financial instruments (continued)

The Company's financial instruments consist of cash, accounts receivable, amounts due to related parties, capital lease obligations, accounts payable and accrued liabilities. It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values. The Company does not have derivatives or embedded derivatives.

#### l) Revenue recognition

The Company's revenue is comprised of three sources: resale and distribution of prepaid telecommunication products (principally prepaid cellular and prepaid long distance products); equipment and parts sales; and software license and the related services sales. Revenues are recognized when pervasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectibility is reasonably assured.

The Company's revenues are primarily generated from the distribution of prepaid long distance and cellular telephone time, principally from the sale of prepaid calling cards and point of sale activated PINs. Sales of prepaid calling cards and point of sale activated PINs, in accordance with Emerging Issues Committee ("EIC") No. 123, "Reporting Revenue Gross as Principal versus Net as an Agent," are recognized on a gross basis as the Company is the primary obligor to its customer and incurs inventory risk.

The resale of prepaid telecommunication services 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 \$845,000 of revenue in fiscal 2007 (\$601,000 in fiscal 2006). Equipment sales are ancillary to the resale of prepaid products. Equipment sales and parts revenue is recognized when delivered.

Software license revenues are recognized upon the customer's execution of a software license agreement, the receipt of a purchase order and shipment of the software, provided that no significant vendor obligations remain outstanding. Where significant vendor obligations are negotiated, software license revenues are recognized only after these obligations have been satisfied.

#### m) Stock-based compensation

The Company follows the accounting guidelines of the CICA Handbook section 3870, Stock-based Compensation and Other Stock-Based Payments. Under the guidelines, all new or re-priced stock-based awards are measured and recognized in the period of grant or revision using a fair-value methodology. Where share based awards are subject to vesting provisions the fair value is measured at the date of grant and recognized over the expected vesting period. The standard also requires the use of a fair-value methodology for all direct awards of stock, stock appreciation rights, and awards that call for settlement of rights in cash or other assets.

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 2. Summary of Significant Accounting Policies (continued)

#### n) Earnings per share

Basic earnings per share are computed using the weighted average number of common shares outstanding during the reporting period. The treasury stock method is used for the calculation of diluted net earnings 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. Diluted earnings per share assumes all outstanding options and warrants have been exercised at the later of the beginning of the fiscal period or the date of issuance. For the current year, 2,944,601 (2006 – 3,700,500) options have been included in the calculation for diluted weighted average number of common shares outstanding.

#### o) Leases

Leases, whereby the Company receives substantially all of the benefits and risks incidental to ownership of property are accounted for as capital leases. Other leases are accounted for as operating leases.

#### q) Related party transactions

All monetary transactions occurring with related parties in the normal course of operations are measured at the exchange value which is determined by management to approximate fair value. Non-monetary transactions in the normal course of operations that have commercial substance and do not involve the exchange of property or product held for sale are also measured at the exchange value. All other related party transactions are recorded at their carrying amount.

#### r) Comparative figures

Certain comparative figures have been reclassified to conform to the basis of presentation adopted in the current year.

### 3. Inventories

Inventories consisted of the following at October 31:

	2007	2006
Prepaid products and services	\$ 4,681,033	\$ 1,088,763
Hardware parts	139,306	13,891
	<hr/> \$ 4,820,339	<hr/> \$ 1,102,654

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 4. Equipment

Equipment consisted of the following at October 31:

	2007		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 326,090	\$ 306,106	\$ 19,984
Computer hardware under capital lease	66,784	24,186	42,598
Computer software	235,253	164,396	70,857
Equipment	998,642	567,353	431,289
Equipment under capital lease	659,004	347,682	311,322
Furniture and fixtures	44,010	13,136	30,874
Leasehold improvements	4,698	940	3,758
Office equipment	78,993	57,612	21,381
	<u>\$ 2,413,474</u>	<u>\$ 1,481,411</u>	<u>\$ 932,063</u>

	2006		
	Cost	Accumulated Amortization	Net Book Value
Computer hardware	\$ 345,507	\$ 282,133	\$ 63,374
Computer hardware under capital lease	11,694	5,930	5,764
Computer software	29,000	27,712	1,288
Equipment	215,134	117,255	97,879
Equipment under capital lease	231,250	81,975	149,275
Furniture and fixtures	10,636	6,288	4,348
Leasehold improvements	-	-	-
Office equipment	17,998	11,756	6,242
	<u>\$ 861,219</u>	<u>\$ 533,049</u>	<u>\$ 328,170</u>

### 5. Acquisition of Go Prepaid

On May 7, 2007, the Company acquired all the issued and outstanding shares of Go Prepaid, a private company based in Toronto, Ontario. Go Prepaid specializes in the distribution of prepaid telecom products and has been a distribution partner for the Company since 1999. The results of Go Prepaid's operations have been included in the consolidated financial statements since the date of acquisition.

The aggregate purchase price was \$750,000 in cash and 721,542 common shares of the Company valued at \$641,691. The value of the 721,542 common shares was based on the average market price of the Company's common shares for the 15 day period before the terms of the acquisition were agreed to and announced. The total consideration paid including acquisition costs of \$93,229 and \$95,450 payable to the principal of Go Prepaid was \$1,580,370.

The acquisition was accounted for using the purchase method. The following table summarizes the allocated fair value of the assets acquired and the liabilities assumed at the date of acquisition:

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 5. Acquisition of Go Prepaid (continued)

Cash	\$ 1,407,691
Other current assets	836,988
Equipment	150,131
Customer relationships	880,000
Goodwill	522,349
FIT asset	118,487
<hr/> Total assets acquired	<hr/> 3,915,646
Current liabilities	2,186,837
FIT liability	148,439
<hr/> Total liabilities acquired	<hr/> 2,335,276
 Net purchase price	 \$ 1,580,370

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the identifiable tangible and intangible assets acquired, less liabilities assumed, based on their estimated fair values.

### 6. Intangible Assets

Intangible assets consist of the following at October 31:

	2007		
	Cost	Accumulated Amortization	Net Book Value
Domain names and patents	\$ 71,710	\$ 57,957	\$ 13,753
Web site development	3,121	3,121	-
Customer relationships acquired	880,000	88,000	792,000
	<hr/> \$ 954,831	<hr/> \$ 149,078	<hr/> \$ 805,753

	2006		
	Cost	Accumulated Amortization	Net Book Value
Domain names and patents	\$ 71,710	\$ 54,518	\$ 17,192
Web site development	3,121	624	2,497
	<hr/> \$ 74,831	<hr/> \$ 55,142	<hr/> \$ 19,689

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 7. Income Taxes

As at October 31, 2007 and 2006, the Company has Canadian non-capital losses carried forward of approximately \$687,500 (2006 - \$1,871,000) available to reduce future Canadian taxable income expiring as follows:

<u>Year of Expiry</u>	<u>Amount</u>
2014	\$ 127,000
2026	351,200
2027	209,300
	<u>\$ 687,500</u>

As well, the Company has Canadian net capital losses carried forward of approximately \$1,482,000 (2006 - \$1,482,000) available to reduce future Canadian taxable capital gains. The future potential benefit of these losses has not been recognized as the criteria for recognition has not been met.

The actual provision for income tax differs from the expected amount calculated by applying the combined applicable Canadian federal and provincial income tax rate to the income before income taxes. The difference relates to the following items at October 31:

	<b>2007</b>	<b>2006</b>
Earnings before income taxes	\$ 947,199	\$ 715,571
Combined Canadian federal and provincial income tax rate	<u>34.1%</u>	<u>34.1%</u>
Expected income tax expense	\$ 322,995	\$ 244,010
Effect of change in applicable tax rates	30,321	-
Non-deductible permanent differences	247,600	117,259
Realization of previously unrecognized non-capital losses to reduce taxable income	(424,145)	(290,595)
Change in valuation allowance	1,400	(106,037)
Net income tax expense (recovery)	\$ 178,171	\$ (35,363)

Net income tax expense is comprised of current income tax expense of \$129,571 which has been accrued as current income tax payable at October 31, 2007 and future income tax expense of \$48,600. The tax effects of temporary differences that give rise to significant portions of future tax assets (liabilities) are presented below:

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 7. Income Taxes (continued)

	2007	2006
Future tax assets:		
Non-capital losses	\$ 219,000	\$ 638,000
Net capital losses	473,000	505,000
Property, plant and equipment	28,000	145,000
Total gross future tax assets	720,000	1,288,000
Valuation allowance	(495,000)	(1,117,500)
Future tax assets	225,000	170,500
Less: Future tax liabilities		
Intangible assets	(133,052)	-
Net future tax assets	\$ 91,948	\$ 170,500

Management has determined that it is more likely than not that the Company will realize the benefit of the future tax assets related to its non-capital losses and a portion related to its property, plant and equipment.

### 8. Obligation under capital Leases

	Note	2007	2006
Capital leases for terminals	(a)	\$ 144,389	\$ 352,023
Capital lease for computer equipment	(b)	55,090	-
		199,479	352,023
		<hr/>	
Less: current portion		148,926	272,698
		<hr/>	
		\$ 50,553	\$ 79,325
		<hr/>	

(a) The Company finances the purchase of point-of-sale equipment by way of capital leases payable over two years, with imputed interest at a nominal rate of 72% per annum, which mature in 2009.

(b) The Company finances the purchase of computer equipment by way of a capital lease payable over three years, secured by the related equipment, with imputed interest at a nominal rate of 11% and 15% per annum, which matures in 2010.

Minimal annual repayments of lease indebtedness are as follows:

October 31, 2008	\$ 188,564	
October 31, 2009	31,064	
October 31, 2010	11,829	
	<hr/>	
	\$ 231,457	

Thereafter all current lease commitments are fulfilled.

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 9. Share Capital

Authorized:

100,000,000 common shares without par value

	Number of Shares	Value
Issued and outstanding at October 31, 2005	34,151,496	\$ 5,153,012
Shares issued upon exercise of warrants	6,672,945	1,334,589
Shares issued upon exercise of options	587,900	117,580
Shares issued in connection with private placement	1,428,571	500,000
Equity portion of convertible debt	-	34,000
Less subscriptions receivable	-	(335,100)
Issued and outstanding at October 31, 2006	42,840,912	6,804,081
Shares issued upon exercise of options	878,714	188,532
Conversion from contributed surplus	-	20,933
Shares issued upon acquisition	721,542	641,691
Subscriptions received		335,100
Issued and outstanding at October 31, 2007	44,441,168	\$ 7,990,337

### Stock Options

The Company has a stock option plan (the "Plan") whereby it may grant up to 8,671,184 options to its directors, officers and employees which vest over 18 eighteen months. The terms and conditions of options granted under the Plan are determined solely by the Board of Directors. During the year ended October 31, 2007, 4,109,000 options were granted under the Plan with a combined grant date fair value of \$1,608,788 or \$0.41 per option. The weighted average remaining contractual life of options outstanding as of October 31, 2007 was 4.35 years (2006 – 2.8 years). At October 31, 2007, 1,972,500 stock options, with a fair value of \$967,113 were unvested and will be expensed in future periods.

The fair value of each option grant is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions: the expected volatility is 101% (2006 – 103%), risk-free interest rate 4.1% (2006 – 4.1%) and expected average option term of 5 years (2006 – 5 years).

During 2007 the Company recognized \$738,592 (2006 – \$290,626) in stock-based compensation relating to the granting of options. This amount is included in general and administrative expense.

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	150,000	0.33
Exercised	(587,900)	0.20
Outstanding, October 31, 2006	3,973,000	\$ 0.20
Granted	4,109,000	0.82
Exercised	(878,714)	0.21
Outstanding, October 31, 2007	\$ 7,203,286	\$ 0.32

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 9. Share Capital (continued)

The following table outlines the number of options outstanding and exercisable:

Number of Outstanding Options	Number of Options Exercisable	Exercise Price	Number of Years to Expiry	Expiry Date
385,286	385,286	\$0.20	0.50	June 1, 2008
30,000	30,000	\$0.20	1.00	November 1, 2008
100,000	100,000	\$0.20	1.67	June 11, 2009
450,000	450,000	\$0.20	1.75	July 30, 2009
334,000	334,000	\$0.20	2.08	December 1, 2009
1,645,000	1,645,000	\$0.20	2.83	August 8, 2010
50,000	47,302	\$0.30	3.42	March 14, 2011
100,000	94,603	\$0.35	3.42	March 14, 2011
800,000	462,222	\$0.45	4.00	November 1, 2011
800,000	462,222	\$0.60	4.00	November 1, 2011
800,000	462,222	\$0.75	4.00	November 1, 2011
200,000	86,667	\$0.45	4.25	January 31, 2012
200,000	86,667	\$0.60	4.25	January 31, 2012
30,000	12,095	\$0.65	4.33	February 19, 2012
250,000	70,238	\$0.89	4.58	May 8, 2012
409,000	58,429	\$0.88	4.83	August 2, 2012
200,000	28,571	\$0.75	4.83	August 2, 2012
300,000	32,857	\$0.89	4.83	August 23, 2012
100,000	4,762	\$0.82	4.92	October 1, 2012
10,000	476	\$0.88	4.92	October 1, 2012
10,000	127	\$0.88	5.00	October 22, 2012
<b>7,393,286</b>	<b>4,853,746</b>			

### Contributed Surplus

A summary of contributed surplus is as follows:

	Years Ended October 31	
	2007	2006
Balance, beginning	\$ 438,545	\$ 147,900
Stock-based compensation	738,592	290,645
Conversion to share capital from options exercised	(20,933)	-
Balance, ending	<u>\$ 1,156,204</u>	<u>\$ 438,545</u>

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 10. Related Party Transactions

The Company has a lease commitment and paid rent of \$45,269 (2006-\$46,462) to a company in which a director has a minority equity interest. On November 1, 2006, the Company signed a three year lease agreement which expires October 31, 2009. In addition to minimum lease payments of \$3,772 per month, the facility lease requires payment of a proportionate share of taxes and strata fees. This transaction was in the normal course of operations and, in management's opinion, undertaken with the terms and conditions consistent with arms' length market conditions.

### 11. Commitments

At October 31, 2007, the Company is committed to future minimum operating lease payments for its premises as follows:

2008	\$	119,250
2009		119,250
2010		73,986
2011		61,655
	\$	<u>374,141</u>

### 12. Segmented Information

The Company operates in one industry and two geographic segments; North America and China.

	North America	China	Total
<b>Year ended October 31, 2007</b>			
Revenue	\$ 90,740,476	\$82,472	\$ 90,822,948
Amortization	364,976	8,976	373,952
Segment earnings (loss)	894,123	(125,095)	769,028
Segment assets	\$ 10,812,987	73,728	\$ 10,886,715
	North America	China	Total
<b>Year ended October 31, 2006</b>			
Revenue	\$ 57,979,818	\$38,260	\$ 8,018,078
Amortization	167,207	7,951	175,158
Segment earnings (loss)	883,834	(132,900)	750,934
Segment assets	4,289,436	95,540	4,384,976

## VendTek Systems Inc.

Notes to Consolidated Financial Statements  
Years Ended October 31, 2007 and 2006

### 13. Earnings per share

The following table sets out the computation of basic and diluted net earnings, net of tax per common share:

	2007	2006
Numerator:		
Net earnings	\$ 769,028	\$ 750,934
Effective of dilutive securities	-	-
<u>Adjusted net earnings</u>	<u>\$ 769,028</u>	<u>\$ 750,934</u>
Denominator:		
Basic weighted-average number of common shares outstanding	43,644,736	38,597,341
Effective of dilutive securities		
Stock options	2,944,601	3,700,500
<u>Dilutive weighted-average number of common shares outstanding</u>	<u>46,589,337</u>	<u>42,297,841</u>
<u>Basis net earnings per common share</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>
<u>Diluted net earnings per common share</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>