

VendTek Systems Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

For the Three and Six Months Ended April 30, 2008

The following Management's Discussion & Analysis should be read in conjunction with the financial statements and notes to the consolidated financial statements for the three and six months ended April 30, 2008, and the Management's Discussion & Analysis and notes to the consolidated financial statements appearing in the Annual Report for the fiscal year ended October 31, 2007.

Except for statements of historical fact contained herein, the following information presented contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of VendTek to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Although VendTek has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be anticipated, estimated or intended. All amounts presented in this MD&A are in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in Canadian dollars unless otherwise specifically noted. References herein to "VendTek", "the Corporation", "the Company", "we" and "our" mean VendTek Systems Inc.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Overview

We strive to provide our customers with innovative products, exceptional service and superior technical expertise while endeavouring to enhance value to our shareholders.

We develop, market and sell automated transaction system software and supporting technologies that improve the efficiency of product delivery, reduce costs to clients and offer superior transaction security measures. Our business focuses primarily in the prepaid telecom and financial services industries. We market our products and services in Canada directly and through our Now Prepay™ division ("NPP"). We have four wholly-owned subsidiaries; VendTek Systems Technologies (Beijing) Co. Ltd. ("VST"), VendTek Systems Asia Pacific (Singapore) Pte Ltd. ("VAP") and Gulf Prepay Networks ("GPN") and Go Prepaid Inc. ("GPP").

Our principal product is our proprietary e-Fresh™ software which consists of a suite of server applications and corresponding client modules. The e-Fresh™ software is used to create a distribution system which can be used to sell services on proprietary or non-proprietary hardware thereby creating an e-Fresh™ network.

The e-Fresh™ software utilizes POS terminals and other electronic terminals as clients (located in retail locations) which connect to a central server and provide secure electronic distribution for prepaid goods and services to consumers in real time. Third party kiosks, bank machines, POS terminals, PC computers, and web browsers are all potentially suitable distribution points. Compared to the traditional method of delivering prepaid services using cards or plastic vouchers, distributing these services electronically allows substantial savings through reduced printing and packaging costs, physical distribution costs and shrinkage (theft), as well as the elimination of inventory holding costs at the retail distribution level.

VST is incorporated in China for developing e-Fresh™ licensed customers and providing low cost software development and support. This company's objective is to generate recurring license revenues from the world's largest prepaid and cellular markets. VendTek's Chinese operations include sales and marketing, customer support and engineering. With six years of operating history, VendTek is continuing to build business with its primary customer in China and evaluating potential opportunities.

GPN incorporated in the Cayman Islands is developing the e-Fresh™ market in the Middle East

VAP incorporated in Singapore is currently inactive.

On March 31, 2007, our wholly owned subsidiary Now Prepay Corp was amalgamated with the Company. We continue to do business in Canada under the Now Prepay name.

On May 7, 2007, we acquired all the issued and outstanding shares of GPP, a private company based in Toronto, Ontario. GPP specializes in the distribution of prepaid telecom products and has been a distribution partner of ours since 1999. The results of GPP operations have been included in the consolidated financial statements since the date of acquisition. On April 30, 2008, GPP was amalgamated with the Company.

Revenue

We generate our revenues from the distribution of virtual prepaid products through our NPP network, hardware and equipment sales, license fees from our international customers and related professional service fees.

As part of our strategy to develop recurring sources of revenues, we developed our own electronic distribution business across Canada under the Now Prepay™ brand. NPP uses e-Fresh to distribute cellular and long distance products, financial products, prepaid gift cards and prepaid internet cards. NPP also sells its own branded long distance products: Now#1 and Connect Now. NPP is currently generating the majority of our revenues. We also license our e-Fresh™ software to third-parties (service providers, retailers and retail distributors) allowing them to distribute electronic products and services with increased efficiency. By licensing to our customers, we are developing sources of recurring license revenues from a global and growing market. We receive recurring revenues from fees paid to us each time a transaction is completed on one of our customers' terminals.

Going forward, we expect to increase sales through continued deployment of e-Fresh™ software to point-of-sale terminals through the NPP network in Canada and the United States, increase the product base available to the NPP network and develop new international markets for the e-Fresh™ software. We also expect to see continued growth in the license revenues from our United Arab Emirates ("UAE") customer resulting from more transactions from the UAE and Africa.

Cost of Revenues

Costs of products and services sold consist of payments to carriers who provide cellular and long distance telephone time and various services associated with production and shipping of products, site commissions, transaction processing expenses and personnel. We do not have significant costs for our license revenues.

Research and Development Expenses

Our research and development expenses consist primarily of salaries, bonuses and benefits for engineering personnel, costs associated with various projects, including testing, developing prototypes and related expenses.

Our engineering personnel are located in our offices in Canada and China. We fund our operations in China because we believe this allows us to continue our development in a cost effective way. As a

percentage of revenue, we expect our research and development expense to decrease as revenue increases.

Selling and Marketing Expenses

Selling and marketing expenses consist primarily of compensation for employees engaged in the sales and marketing functions. Other significant costs include tradeshow participation, journal advertising, and travel. Some of our sales staff is located in China to support our sales initiatives there. We receive minimal revenues from our customers which help offset our costs to maintain our Beijing sales and development office.

General and Administrative Expenses

General and administrative expenses consist primarily of compensation for employees in executive and operational functions, including finance and accounting. Other significant costs include professional fees for accounting and legal services, consulting fees, facilities costs and general corporate overhead.

Critical Accounting Policies and Estimates

The following discussion and analysis is based upon our consolidated financial statements that have been prepared in conformity with Canadian generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. We evaluate our estimates including the determination of the fair value of stock-based compensation and financial instruments, the allowance for doubtful accounts, inventory valuation, tax provisions and the useful lives of property, plant and equipment including intangible assets. The discussion below is intended as a brief discussion of some of the judgements and uncertainties that can impact the application of these policies and the specific dollar amounts reported on our financial statements. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form our basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions, or if management made different judgements or utilized different estimates. Many of our estimates or judgements are based on anticipated future events or performance, and as such are forward-looking in nature, and are subject to many risks and uncertainties, including those discussed below and elsewhere in this annual report. Management does not undertake any obligation to update or revise this discussion to reflect any future events or circumstances.

We have identified some of our accounting policies that we consider critical to our operations and the understanding of our results of operations. This is neither a complete list of all our accounting policies, nor does it include all the details surrounding the accounting policies we have identified. There are other accounting policies that are significant to our company. For a more detailed discussion on the application of these and our other accounting policies, see note 2 to the consolidated financial statements for the six month period ended April 30, 2008.

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 an 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, being the retail merchant, and incurs inventory risk (including physical 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 \$109,000 of revenue in the first two quarters of fiscal 2008. 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.

Cost of revenues for the prepaid time consists primarily of long distance telephone time, standard telephone cards, net amounts earned on early payments to suppliers plus commissions to Independent Sales Organizations (ISO's) and sales agents. Direct costs include operational salaries, parts and accessories. Cost of revenues for transaction fees and services consist of network communication costs, maintenance and support of terminals and third-party processing costs. Cost of revenues does not include amortization.

Stock-Based Compensation

The CICA Handbook Section 3870 requires 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.

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

Changes in Accounting Policies

Effective February 1, 2008, the Company adopted the recommendations of Section 1535, "Capital Disclosures", of the CICA Handbook. This section establishes standards for disclosing information

about a Company's capital and how it is managed in order that a user of the financial statements may evaluate the Company's objectives, policies, and processes for managing capital. Beyond additional disclosure, these new standards did not have an effect on our financial position or results of operations.

Sections 3862, "*Financial Instruments – Disclosures*", and 3863, "*Financial Instruments – Presentation*", of the CICA Handbook replaced Section 3861, "*Financial Instruments – Disclosure and Presentation*", and were adopted by the Company effective February 1, 2008. The new standards revise and enhance the disclosure requirements on the nature and extent of risks arising from financial instruments and how a Company manages those risks. Beyond additional disclosure, the adoption of these new pronouncements did not have an effect on the Company's financial position or results of operations.

Financial Instruments

Risk disclosures:

The Company's financial instruments are primarily exposed to foreign currency and credit risks:

(a) Foreign currency risk:

Foreign currency risk reflects the risk that the Company's net assets or operations will be negatively impacted due to fluctuations in exchange rates. Accounts receivable and payable 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 derivatives in place. The majority of the Company's revenues and purchases are made in Canadian dollars. However certain of the Company's revenues and expenses are denominated in US dollars and Chinese renminbi. Fluctuations in the exchange rates could significantly impact profitability.

During the quarter and six months ended April 30, 2008, approximately 13% of the Company's gross margin was originated in US dollars and less than 1% of expenses were incurred in US dollars. During the quarter, about 1% of the Company's gross margins originated in Chinese renminbi and approximately 4% expenses were incurred in Chinese renminbi. During the six months ended April 30, 2008, approximately 1% of the Company's gross margins originated Chinese renminbi and approximately 3% expenses were incurred in Chinese renminbi.

The Company monitors the movement in currency exchange rates and, on that basis, decides on the appropriate measures to take.

(b) Credit risk:

Credit risk reflects the risk that the Company may be unable to recover accounts receivable. The Company's customers are currently concentrated in Canada in the United Arab Emirates. There have been minimal write-offs of receivables in the last 5 years. The Company generally does not require collateral. The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within operating expenses. When a receivable balance is considered uncollectible it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

The Company is exposed to concentration of credit risk. As at April 30, 2008, no customers accounted individually for more than 10% of consolidated revenues however, the Company's largest customer group accounted for 17% of consolidated revenues, but the amounts due from the group are collected

on an individual basis and generally are individually immaterial. As at April 30, 2008, the maximum credit risk exposure for accounts receivable corresponds to the carrying value.

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past.

As at April 30, 2008, the Company had \$20,034 in past due trade receivables. These mainly related to existing customers that generally take longer to collect.

Summary of Quarterly Results

Quarter Ended	Revenue	Earnings	Earnings per share ¹
April 30, 2008	\$28,883,463	\$165,702 ⁹	\$0.00
January 31, 2008	\$28,994,961	\$150,478 ⁸	\$0.00
October 31, 2007	\$28,995,575	\$137,371 ⁷	\$0.00
July 31, 2007	\$28,147,077	\$266,735 ⁶	\$0.01
April 30, 2007	\$17,291,858	\$97,104 ⁵	\$0.00
January 31, 2007	\$16,414,540	\$267,818 ⁴	\$0.01
October 31, 2006	\$16,826,650	\$231,367 ^{2,3}	\$0.01
July 31, 2006	\$14,899,228	\$320,033 ²	\$0.01

¹ Basic earnings 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 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 assume all outstanding options and warrants have been exercised at the later of the beginning of the fiscal period or the date of issuance.

² Includes non-cash adjusting entries recorded in each quarter of 2006: Stock-based compensation expense for fiscal 2006 totalled (\$291,000).

³ Includes year-end tax expense, all of which was recorded in the fourth quarter of fiscal 2006, of \$135,137 and a future income tax asset of \$170,500.

⁴ Includes non-cash adjusting entries recorded in each quarter 2007: Stock-based compensation expense for the first quarter of fiscal 2007 totalled \$143,000.

⁵ Includes non-cash adjusting entries recorded in each quarter 2007: Stock-based compensation expense for the second quarter of fiscal 2007 totalled \$154,000.

⁶ Includes non-cash adjusting entries recorded in each quarter 2007: Stock-based compensation expense for the third quarter of fiscal 2007 totalled \$202,000.

⁷ Includes non-cash adjusting entries recorded in each quarter 2007: Stock-based compensation expense for the fourth quarter of fiscal 2007 totalled \$240,000.

⁸ Includes non-cash adjusting entries recorded in each quarter 2008: Stock-based compensation expense for the first quarter of fiscal 2008 totalled \$280,000 and income tax provision expense was \$77,000.

⁹ Includes non-cash adjusting entries recorded in each quarter 2008: Stock-based compensation expense for the second quarter of fiscal 2008 totalled \$283,000 and income tax provision expense was \$85,000.

Results of Operations

Comparison of the three and six month periods ended April 30, 2008, compared to the three and six month periods ended April 30, 2007.

Note: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries:

The table below sets forth data from our statements of operations for the three and six months ended April 30, 2008 and 2006, expressed as a percentage of total revenue.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2008	2007	2008	2007
Prepaid telecommunication revenue	99.0%	98.6%	99.0%	98.4%
Hardware revenue	0.1%	0.1%	0.1%	0.1%
Software revenue	0.9%	1.3%	0.9%	1.5%
Total revenue	100.0%	100.0%	100.0%	100.0%
Cost of products sold	93.7%	93.3%	94.0%	93.2%
Gross profit	6.3%	6.7%	6.0%	6.8%
General and administrative expense	3.7%	3.9%	3.7%	3.5%
Selling and marketing	0.6%	0.8%	0.5%	0.8%
Research and development	0.5%	0.7%	0.5%	0.7%
Amortization	0.5%	0.5%	0.4%	0.5%
Other expenses	0.1%	0.2%	0.1%	0.2%
Income before benefit for income taxes	0.9%	0.6%	0.8%	1.1%
Benefit for income taxes	0.3%	–	0.3%	–
Net income	0.6%	0.6%	0.5%	1.1%

Three Months Ended April 30, 2008 Compared to Three Months Ended April 30, 2007

Revenue

Revenues for the quarter ended April 30, 2008, increased \$11.591 million to \$28,883 million, or 67%, from \$17.292 million for the corresponding period in 2007.

Our prepaid telecommunications revenue totalled \$28.589 million for the quarter ended April 30, 2008, compared to \$17.040 million for same quarter in 2007. The 67% increase is primarily due to ongoing installation of POS terminals across Canada for distribution of virtual prepaid telecommunications vouchers (or PINs) through our distribution network, which includes the customers acquired in the acquisition of GPP. Also included in the second quarter of 2008 revenues was \$1.517 million of hard card sales from GPP.

Our software and related service revenue increased by \$34,000 (or 14%) to \$266,000 for the second quarter of 2008 from \$231,000 for the same period in 2007. Software and services revenue increased as a result of our licensing customer in the United Arab Emirates. The Company also received initial license fees from the previously announced license agreement for North Africa.

Our hardware revenue for the second quarter of 2008 was \$29,000 compared to \$20,000 in 2007. The decrease was due to reduced parts orders from our legacy vending machine customers and reduced sales of point of sale terminals.

Cost of Revenues

Cost of revenues for the three months ended April 30, 2008, were \$27.074 million, or 94% of revenues, compared to \$16.142 million, or 93% of revenues for the same quarter in 2007. The margin is indicative of the virtual prepaid telecommunications industry.

General and Administrative

General and administrative expense increased \$399,000, or 59%, to \$1,067,000 in the three months ended April 30, 2008, as compared to \$668,000 for the three months ended April 30, 2007. As a percentage of revenue, general and administrative expenses were 3.7% and 3.9% for the three months ended April 30, 2008 and 2007, respectively.

The addition of Go Prepaid's ongoing expenses is one of the primary reasons for the increase in general and administrative expenses and the dramatic changes in comparison values.

Included in general and administrative expense for the second quarter of 2008 and 2007 was \$283,000 and \$154,000, respectively, of non-cash stock-based compensation expense. Compensation expenses also increased during the quarter from \$222,000 in 2007 to \$451,000 in 2008 as we added additional resources. We also had increased travel and professional costs during the quarter.

Sales and Marketing

Our sales and marketing expense increased \$43,000, or 32%, to \$178,000 in the second quarter ended April 30, 2008, as compared to \$135,000 for same period in 2007. As a percentage of revenue, sales and marketing expense was 0.6% and 0.8% for the three months ended April 30, 2008 and 2007, respectively. The increase is primarily due to additional sales and marketing initiatives for our Canadian and international efforts.

Research and Development

Product development costs for the three months ended April 30, 2008 were \$137,000, or approximately 0.5% of revenues. This compares to \$125,000, or approximately 0.7% of revenues for the quarter ended April 30, 2007.

Amortization

Amortization expense increased to \$134,000, or 0.5% of revenue, in the quarter ended April 30, 2008 compared to \$84,000, or 0.5% of revenue, for the same period in 2007. The \$50,000, or 59%, increase in amortization expense is primarily due to the acquisition of GPP and the need to amortize the intangible assets associated with the acquisition.

Interest on capital leases

As a result of the completion of lease agreements, interest expense decreased by \$19,000 to \$21,000 in the quarter ended April 30, 2008 compared to \$40,000 the same period of 2007.

Six Months Ended April 30, 2008 Compared to the Six Months Ended April 30, 2007

Revenue

Revenues for the six months ended April 30, 2008, increased \$24.172 million to \$57.878 million, or 72%, from \$33.706 million for the corresponding period in 2007.

Our prepaid telecommunications revenue totalled \$57.317 million for the two quarters ended April 30, 2008, compared to \$33.157 million for same two quarters in 2007. The 73% increase is primarily due to ongoing installation of POS terminals across Canada for distribution of virtual prepaid telecommunications vouchers (or PINs) through our distribution network, which includes the customers acquired in the acquisition of GPP. Also included in the two quarters of 2008 revenues was \$4.210 million of hard card sales from GPP.

Our software and related service revenue increased slightly by \$1,000 (or 0%) to \$493,000 for the two quarters of 2008 from \$492,000 for the same period in 2007.

Our hardware revenue for the two quarters of 2008 was \$68,000 compared to \$57,000 in 2007.

Cost of Revenues

Cost of revenues for the six months ended April 30, 2008, were \$54.405 million, or 94% of revenues, compared to \$31.406 million, or 93% of revenues for the same quarter in 2007. The margin is indicative of the virtual prepaid telecommunications industry.

General and Administrative

General and administrative expense increased \$911,000, or 75%, to \$2,126,000 in the six months ended April 30, 2008 as compared to \$1,215,000 for the six months ended April 30, 2007. As a percentage of revenue, general and administrative expenses were 3.7% and 3.5% for the six months ended April 30, 2008 and 2007, respectively.

The addition of Go Prepaid's ongoing expenses is one of the primary reasons for the increase in general and administrative expenses and the dramatic changes in comparison values.

Included in general and administrative expense for the two quarters of 2008 and 2007 was \$564,000 and \$297,000, respectively, of non-cash stock-based compensation expense. Compensation expense also increased during the two quarters from \$433,000 in 2007 to \$885,000 in 2008 as we added additional resources. We also had increased travel and professional costs during the quarter.

Sales and Marketing

Our sales and marketing expense increased \$35,000, or 14%, to \$293,000 in the two quarters ended April 30, 2008 as compared to \$258,000 for same period in 2007. As a percentage of revenue, sales and marketing expense was 0.5% and 0.8% for the six months ended April 30, 2008 and 2007, respectively. The increase is primarily due to additional sales and marketing initiatives for our Canadian and international efforts.

Research and Development

Product development costs for the six months ended April 30, 2008 were \$262,000, or approximately 0.5% of revenues. This compares to \$224,000, or approximately 0.7% of revenues for the two quarters ended April 30, 2007.

Amortization

Amortization expense increased to \$246,000, or 0.4% of revenue, in the two quarters ended April 30, 2008 compared to \$165,000, or 0.5% of revenue, for the same period in 2007. The \$81,000, or 49%, increase in amortization expense is primarily due to the acquisition of GPP and the need to amortize the intangible assets associated with the acquisition.

Interest on capital leases

As a result of the completion of lease agreements, interest expense decreased by \$19,000 to \$54,000 in the two quarters ended April 30, 2008 compared to \$73,000 the same period of 2007.

Liquidity and Capital Resources

As of April 30, 2008, cash totalled approximately \$1.531 million compared to approximately \$0.329 million at October 31, 2007.

Cash Flows Used in Operating Activities

Net cash provided by operating activities totalled \$1.378 million for the six months ended April 30, 2008 and net cash provided by operating activities totalled \$516,000, during the six month period ended April 30, 2007. Cash was used primarily for payments of accounts payable, accrued expenses, and purchase of inventory.

Cash Flows from Investing Activities

Investing activities used cash of \$166,000 and \$326,000 during the six months ended April 30, 2008 and 2007, respectively. The funds were used to purchase equipment.

Cash Flows from Financing Activities

Financing activities used cash of \$10,000, and provided cash of \$217,000 during the six months ended April 30, 2008 and 2007, respectively. During the first six months of 2008, cash was used in the repayment of the Company's lease obligations. This was partially offset by the exercise of stock options. During the first six months of fiscal 2007, cash was provided by the exercise of warrants and options and the issuance of new shares.

Financial Condition

We believe that we have sufficient cash and working capital to meet our obligations as they become due in 2008. We plan capital expenditures in fiscal 2008 to exceed 2007 with potential acquisitions and expansion into the U.S. market.

We expect to continue using funds generated from our existing operations to further finance the expansion of prepaid cellular business in Canada. Working capital is managed by the rate of inventory turnover, collection terms with customers and terms granted by suppliers. Our cash flow is dependant on our ability to continue to manage the business cycle. Limited credit facilities from vendors may limit our working capital and cash flows to expand the business. As this business expands, we anticipate the need to purchase additional inventory and POS terminals. An ongoing risk is customer non-payment. However, given the low dollar value generated by each individual customer, this would not create a negative cash flow situation.

Our cash flow from operations is impacted by our margin on sales. Increased pricing competition may affect our ability to negotiate favorable supply contracts, which will impact our margin, net income and operating cash flow.

Historically, the Company has financed its operations through the sale of equity as well as through long-term debt, lease financing, an operating line of credit with a chartered Canadian bank, term loans from the Business Development Bank of Canada and related party debt. VendTek's operations, development and expansion are financed from the cash flow generated from operating activities, including supplier credit.

There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the company nor are there defaults or arrears or anticipated defaults or arrears on lease payments, interest or principle payments on debt. We have no minimum purchase or supply agreements in place. The Company's current minimum annual contractual obligations are as follows for the years ending October 31:

2008	\$	114,919
2009		114,919
2010		76,945
2011		64,121
		370,904

Summary of Options Granted

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. 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.

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

	Number of shares	Weighted average exercise price
Balance, October 31, 2007	7,203,286	\$0.32
Granted	20,000	0.88
Exercised	(136,986)	0.20
Balance, April 30, 2008	7,086,300	\$0.32

The following table summarizes information about share options outstanding at April 30, 2008:

Range of Exercise Prices (\$)	Weighted Average Remaining Contractual Life (Years)	Options Outstanding		Options Exercisable	
		Number Outstanding	Weighted Average Exercise Price	Number Outstanding	Weighted Average Exercise Price
0.20 – 0.40	1.43	2,957,300	\$0.20	2,957,300	\$0.20
0.41 – 0.60	3.54	2,000,000	\$0.53	1,675,556	\$0.53
0.61 – 0.89	3.50	2,129,000	\$0.82	1,217,648	\$0.80
	2.82	7,086,300	\$0.32	5,850,504	\$0.34

The fair value of each option is estimated as at the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	April 30, 2008
Risk free interest rate	4.22%
Expected life	5 years

Expected volatility	103%
Expected dividends	-
Fair value per share option granted	0.45

Related Party Transactions

During the six months ended April 30, 2008, the Company paid rent of \$22,635 (2007-\$22,635) to a company in which a director has a minority equity interest. On November 1, 2006, the Company signed a three-year lease which expires on 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 same terms and conditions as a transaction with unrelated parties.

Forward-looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding future plans and objectives of the Company are forward-looking statements that include various risks and uncertainties. There can be no assurance that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in Company documents filed from time to time with the TSX Venture Exchange and other regulatory authorities.

Management is of the opinion that we have sufficient cash resources and working capital to meet ongoing obligations as they come due during the next fiscal year. We plan capital expenditures in fiscal 2008 to exceed 2007 with potential acquisitions and expansion into international markets including the United States.

Management plans to continue using cash flow generated from operations to finance the continued expansion of the Now Prepay network in Canada and the United States. Generally, cash flow terms from suppliers are net 25 days and net 10 days for collections from customers. Credit facilities from our vendors are limited and may restrict our working capital and cash flow to develop the business. An ongoing risk to our liquidity is customer non-payment. However, given the low dollar value generated by each individual customer, this would not create a negative cash flow situation. Substantial growth for the prepaid business is in part dependant on increased credit limits from our suppliers to finance the purchase of inventory, which, historically, has not been a problem.

Cash flow from operations is influenced by our sales margins. Pricing competition among our suppliers of prepaid products may reduce margins. Our ability to negotiate contracts will impact our margins, cash flow and net income.

Required capital for fiscal 2008 will depend on several factors including, but not limited to, the amount of resources we will commit to network development, new product development and prospective strategic alliances and acquisitions of new products and/or other businesses.

Possible future alliances, acquisitions and product initiatives may increase capital requirements. We may seek funding from a combination of sources, including equity and debt financing. No assurances can be given that additional financing will be available to the Company.

Off-Balance Sheet Arrangements

VendTek does not have any off-balance sheet arrangements.

Controls and Procedures

As of the end of fiscal year 2007, management has carried out an evaluation of the effectiveness of the operation of the Company's disclosure controls and procedures. This evaluation was carried out under the supervision and with the participation of the Company's management. Based upon that evaluation, management has concluded that the Company's disclosure controls and procedures are effective at October 31, 2007. There have been no changes in disclosure controls over financial reporting in connection with this evaluation that occurred during the fourth quarter of fiscal 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in the Company's reports filed or submitted is recorded, processed, summarized and reported within time periods specified in the Securities and Exchange Commissions rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the Company's reports filed is accumulated and communicated to management as appropriate, to allow timely decisions regarding required disclosure.

As a result of our significant growth and increase in the scope of our operations, we are continuing to evaluate our internal controls and we expect to make necessary improvements and enhance the reliability over financial reporting. We are reviewing our financial systems and processes and expect that we will make changes to improve our systems and processes.

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VendTek Systems Inc. is a publicly traded company listed on the Canadian TSX-Venture Exchange symbol VSI.