

Consolidated Financial Statements of

**VENDTEK SYSTEMS INC.**

Years ended October 31, 2009 and 2008



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## AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheets of VendTek Systems Inc. as at October 31, 2009 and 2008 and the consolidated statements of operations, comprehensive income (loss) 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 audit.

We conducted our audit 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, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, Canada

February 22, 2010

# VENDTEK SYSTEMS INC.

Consolidated Balance Sheets

As at October 31, 2009 and 2008

	2009	2008
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,676,158	\$ 2,102,666
Accounts receivable	3,544,251	2,851,942
Income taxes recoverable	618,373	183,473
Inventories (note 6)	2,418,738	2,934,249
Prepaid expenses and deposits	85,437	60,108
	<u>9,342,957</u>	<u>8,132,438</u>
Equipment (note 7)	613,094	821,123
Intangible assets (note 8)	310,184	418,021
Goodwill	907,342	907,342
	<u>\$ 11,173,577</u>	<u>\$ 10,278,924</u>

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,222,939	\$ 6,376,818
Current portion of capital lease obligations (note 10)	13,145	43,952
	<u>8,236,084</u>	<u>6,420,770</u>
Capital lease obligations (note 10)	8,503	22,281
	<u>8,244,587</u>	<u>6,443,051</u>
Shareholders' equity:		
Share capital (note 11)	8,460,132	8,344,732
Contributed surplus (note 11)	2,204,518	2,117,835
Deficit	(7,735,660)	(6,626,694)
	<u>2,928,990</u>	<u>3,835,873</u>
Commitments (note 13)		
	<u>\$ 11,173,577</u>	<u>\$ 10,278,924</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

"signed"

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Garth Albright, Director

"signed"

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Shane Meyers, Director

# VENDTEK SYSTEMS INC.

Consolidated Statements of Operations, Comprehensive Income (Loss) and Deficit

Years ended October 31, 2009 and 2008

	2009	2008
Revenue:		
Prepaid telecommunication	\$ 122,295,062	\$ 121,546,125
Hardware and equipment	83,804	134,043
Software license and services	1,327,657	1,074,136
	<u>123,706,523</u>	<u>122,754,304</u>
Cost of revenue:		
Prepaid telecommunication	117,563,532	116,071,730
Hardware and equipment	4,606	91,950
	<u>117,568,138</u>	<u>116,163,680</u>
	6,138,385	6,590,624
Operating expenses:		
General and administrative	3,967,610	4,425,729
Selling and marketing	682,909	879,526
Research and development	779,798	556,192
Restatement costs (note 5)	1,223,838	-
Amortization	417,748	510,318
Interest expense	4,343	63,374
Foreign exchange loss (gain)	171,105	(72,535)
	<u>7,247,351</u>	<u>6,362,604</u>
Earnings (loss) before income taxes	(1,108,966)	228,020
Income taxes (note 9)	-	3,700
Net earnings (loss) and comprehensive income (loss)	(1,108,966)	224,320
Deficit, beginning of year	(6,626,694)	(6,851,014)
Deficit, end of year	<u>\$ (7,735,660)</u>	<u>\$ (6,626,694)</u>
Net earnings (loss) per common share (note 14):		
Basic	\$ (0.02)	\$ 0.01
Diluted	(0.02)	0.00
Weighted average shares outstanding:		
Basic	45,247,782	44,719,315
Diluted	45,247,782	48,151,246

See accompanying notes to the consolidated financial statements.

# VENDTEK SYSTEMS INC.

## Consolidated Statements of Cash Flows

Years ended October 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		
Operations:		
Net earnings (loss)	\$ (1,108,966)	\$ 224,320
Amortization expense	417,748	510,318
Loss on disposal of assets	-	26,768
Stock-based compensation expense	108,083	938,180
Changes in non-cash operating working capital (note 17(a))	1,209,094	467,266
	<u>625,959</u>	<u>2,166,852</u>
Financing activities:		
Proceeds from options exercised	94,000	161,857
Repayment of lease obligations	(44,585)	(128,594)
	<u>49,415</u>	<u>33,263</u>
Investments:		
Purchases of equipment	(88,082)	(332,944)
Purchase of intangible assets	(13,800)	(95,936)
	<u>(101,882)</u>	<u>(428,880)</u>
Increase in cash and cash equivalents	573,492	1,771,235
Cash and cash equivalents, beginning of year	2,102,666	331,431
Cash and cash equivalents, end of year	<u>\$ 2,676,158</u>	<u>\$ 2,102,666</u>

Supplemental cash flow disclosures (note 17(b)).

See accompanying notes to the consolidated financial statements.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

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### 1. Nature of operations:

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

VendTek's business focuses primarily on 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. The Company also licenses its software to customers internationally, including the UAE, China, and Africa.

### 2. 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., VendTek Systems Technologies (Beijing) Co., Ltd., VendTek Systems Asia Pacific (Singapore) Pte. Ltd. and Gulf Payment Networks. VendTek Industries Inc. owns VendTek International Inc. (a U.S. company), which is inactive and has no assets.

#### (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, accounts receivable valuation, inventory valuation, valuation of goodwill and intangible assets and the useful lives of 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.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 2. Significant accounting policies (continued):

(d) Equipment:

Equipment is recorded at cost. Amortization is computed on a declining balance basis over the estimated useful lives of the assets at the annual rates below:

Asset	Rate
Computer hardware	30%
Equipment	30%
Furniture and fixtures	20%
Leasehold improvements	20%
Office equipment	20%
Vehicles	30%

Additionally, floor display stands are amortized over two years on a straight-line basis.

(e) Goodwill:

The Company accounts for goodwill in accordance with Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064. 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.

Goodwill is not amortized but is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds its implied fair value, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the consolidated statements of operations.

# VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

## 2. Significant accounting policies (continued):

### (f) Intangible assets:

Intangible assets (acquired either individually or with a group of other assets) are recorded at their original 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:

Asset	Basis	Rate
Customer relationships	Straight line	over 5 years
Domain names, patents and others	Straight line	over 5 years
Computer software	Declining balance	30%

### (g) Impairment of 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, 2009 and 2008, no impairment losses have been recorded.

### (h) Foreign currency translation:

The Company's functional currency is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Non-monetary 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.

### (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 on losses carried forward, and are measured using the tax rates substantively enacted and expected to apply when these differences reverse and losses are realized. A valuation allowance is recorded against any future tax asset when it is considered more likely than not that the future tax asset will not be realized.

# VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (j) Financial instruments:

The Company's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities. Cash is classified as held-for-trading and any period change in fair value is recorded through net income. Accounts receivable are classified as loans and receivables and are measured at amortized cost using the effective interest rate method. Interest income is recorded in net income, as applicable. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in net income, as applicable.

The fair value of these financial instruments approximates their carrying values due to their short-term nature. The Company does not have derivatives or embedded derivatives.

### (k) 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 persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability 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. Equipment sales are ancillary to the resale of prepaid products. Equipment sales and parts revenue is recognized when the equipment and parts are delivered.

Software license and service revenues represent professional service fees received for customization of the e-Fresh software and transaction fees received from the processing of prepaid mobile airtime and other prepaid recharges. Customization fees are recognized at the completion of the contract and transaction-based fees are recognized at the time the transactions are processed.

# VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

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## 2. Significant accounting policies (continued):

### (l) Stock-based compensation:

The Company has stock-based compensation plans which are described in note 11.

In accordance with CICA Handbook Section 3870, the Company accounts for all stock-based payments and awards under the fair value method. Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the period and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Under the fair value based method, compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at intrinsic value and recognized over the vesting period. Changes in intrinsic value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight-line basis over the vesting period. The Company accounts for the value attributable to the granted options on the consolidated statements of operations and is included in the determination of income.

### (m) Earnings (loss) per share:

Basic earnings (loss) per share is 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 (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. Diluted earnings (loss) 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.

### (n) 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.

### (o) Comparative figures:

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

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

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### 3. Adoption of new accounting standards:

CICA Handbook Section 1400, *General Standards of Financial Statement Presentation*, has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern. The Company adopted the amendments to this section commencing November 1, 2008.

In February 2008, the CICA issued Handbook Section 3064, *Goodwill and Intangible Assets*, effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008. Section 3064, which replaces Section 3062, *Goodwill and Other Intangible Assets*, and section 3450, *Research and Development Costs*, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. The Company adopted this new standard commencing November 1, 2008.

Section 3031, *Inventory*, of the CICA Handbook replaces Section 3030 and provides guidance on the determination of inventory cost, subsequent recognition as expense, and write-downs to net realizable value. The Company adopted this new standard commencing November 1, 2008.

The adoption of these standards did not result in any material impact on the Company's financial statements.

### 4. Future changes in accounting standards:

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) commencing with fiscal years beginning on or after January 1, 2011. This will result in the Company having to report under IFRS commencing with the fiscal year ending October 31, 2012. The Company is currently developing an implementation plan and assessing the impact of the conversion on the consolidated financial statements and disclosures.

### 5. Restatement of previously issued financial statements:

Subsequent to the preparation of the Company's unaudited interim consolidated financial statements for the three and nine-months ended July 31, 2008, the Company discovered a significant discrepancy between its reported inventory balances and actual inventory balances initially dating back to October 31, 2006.

Following the discovery, the Audit Committee of the Company initiated an independent review of the facts and circumstances leading to the discrepancy. This review, combined with additional investigation by management, led to the identification of a number of additional errors in the Company's 2007 and 2006 consolidated financial statements.

As a result, the Company has restated its consolidated financial statements for the fiscal years ended October 31, 2007 and 2006 and incurred restatement costs, consisting primarily of professional fees, of \$1,223,838 in the year ended October 31, 2009 (2008 - nil).

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 6. Inventories:

Inventories consisted of the following at October 31:

	2009	2008
Prepaid products and services	\$ 2,383,090	\$ 2,918,865
Hardware parts	35,648	15,384
	<u>\$ 2,418,738</u>	<u>\$ 2,934,249</u>

During the year ended October 31, 2009, the Company sold inventory of approximately \$77,000 (2008 - nil) which had previously been written down to nil.

### 7. Equipment:

Equipment consisted of the following at October 31:

2009	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 576,715	\$ 475,614	\$ 101,101
Equipment	1,221,375	782,440	438,935
Furniture and fixtures	67,280	32,710	34,570
Leasehold improvements	4,698	2,293	2,405
Office equipment	67,286	38,877	28,409
Vehicles	31,023	23,349	7,674
	<u>\$ 1,968,337</u>	<u>\$ 1,355,283</u>	<u>\$ 613,094</u>

2008	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 569,806	\$ 436,030	\$ 133,776
Equipment	1,155,037	561,617	593,420
Furniture and fixtures	67,286	24,066	43,220
Leasehold improvements	4,698	1,691	3,007
Office equipment	65,200	35,515	29,685
Vehicles	31,023	13,008	18,015
	<u>\$ 1,893,050</u>	<u>\$ 1,071,927</u>	<u>\$ 821,123</u>

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 8. Intangible assets:

Intangible assets consist of the following at October 31:

2009	Cost	Accumulated amortization	Net book value
Domain names, patents and other	\$ 74,831	\$ 74,203	\$ 628
Customer relationships acquired	458,000	229,000	229,000
Computer software	194,449	113,893	80,556
	\$ 727,280	\$ 417,096	\$ 310,184

2008	Cost	Accumulated amortization	Net book value
Domain names and patents	\$ 74,831	\$ 73,582	\$ 1,249
Customer relationships acquired	458,000	137,401	320,599
Computer software	180,648	84,475	96,173
	\$ 713,479	\$ 295,458	\$ 418,021

### 9. Income taxes:

Income taxes consist of:

	2009	2008
Current	\$ -	\$ 3,700
Future	-	-
Net income taxes	\$ -	\$ 3,700

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 9. Income taxes (continued):

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:

	2009	2008
Earnings (loss) before income taxes	\$ (1,108,966)	\$ 228,020
Combined Canadian federal and provincial income tax rate	31.0%	31.0%
Expected income tax expense	\$ (332,642)	\$ 70,686
Effect of change in applicable tax rates	21,796	80,095
Differences in rates in jurisdictions	17,693	10,136
Non-deductible permanent differences	39,368	359,546
Change in valuation allowance	251,766	(522,829)
Other	2,019	6,066
Net income taxes	\$ -	\$ 3,700

The significant components of future income taxes included in the consolidated balance sheets are as follows:

	2009	2008
Future tax assets:		
Non-capital losses	\$ 422,200	\$ 174,815
Net capital losses	370,551	385,373
Financing costs	2,095	3,268
Property, plant and equipment	111,543	116,431
Intangibles	8,380	9,222
Total gross future tax assets	914,769	689,109
Future tax liabilities:		
Intangibles	(57,250)	(83,356)
Net future tax assets	857,519	605,753
Valuation allowance	(857,519)	(605,753)
	\$ -	\$ -

In assessing the ability to realize future income tax assets, management considers whether it is more likely than not that certain of the future tax assets will be realized. The ultimate realization of the future tax assets is dependant on the generation of taxable income during periods in which the temporary differences reverse.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 9. Income taxes (continued):

The Company has Canadian non-capital loss carry forwards of approximately \$829,000 (2008 - \$958,848) available to reduce future Canadian taxable income expiring as follows:

2026	\$	96,000
2027		185,000
	\$	281,000

As well, the Company has Canadian net capital losses carried forward of approximately \$2,964,000 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.

### 10. Obligation under capital leases:

	Note	2009	2008
Capital leases for terminals	(a)	\$ -	\$ 14,215
Capital lease for computer equipment	(b)	5,386	20,064
Capital lease for other equipment	(c)	11,326	17,886
Capital lease for software	(d)	4,936	14,068
		21,648	66,233
Less: current portion		(13,145)	(43,952)
		\$ 8,503	\$ 22,281

(a) The Company finances the purchase of point-of-sale equipment by way of capital leases payable over two years, which matured 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, which matures in 2010.

(c) The Company finances the purchase of other equipment by way of a capital lease payable over four years, secured by related equipment, which matures in 2012.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 10. Obligation under capital leases (continued):

- (d) The Company finances the purchase of software by way of a capital lease payable over three years, secured by the related equipment, which matures in 2010.

Minimal annual repayments of lease indebtedness are as follows:

October 31, 2010	\$	14,592
October 31, 2011		5,328
October 31, 2012		1,748
	\$	21,648

Thereafter all current lease commitments are fulfilled.

### 11. Share capital:

Authorized:

100,000,000 common shares without par value

	Number of shares	Value
Issued and outstanding at October 31, 2007	44,441,175	\$ 8,076,105
Shares issued upon exercise of options	809,286	161,857
Transfer from contributed surplus	-	106,770
Issued and outstanding at October 31, 2008	45,250,461	8,344,732
Shares issued upon exercise of options	470,000	94,000
Transfer from contributed surplus	-	21,400
Issued and outstanding at October 31, 2009	45,720,461	\$ 8,460,132

*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 months. The terms and conditions of options granted under the Plan are determined solely by the Board of Directors. There were no options granted in the year ended October 31, 2009. During the year ended October 31, 2008, 455,000 options were granted under the Plan with combined grant date fair value of \$270,210 or \$0.59 per option. The weighted average remaining contractual life of options outstanding as of October 31, 2009 was 1.8 years (2008 - 2.8 years). At October 31, 2009, 2,213 (2008 - 298,085) stock options with a fair value of \$1,404 (2008 - \$109,486) were unvested and will be expensed in future periods.

# VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

## 11. Share capital (continued):

### *Stock options (continued):*

During the year ended October 31, 2009 and 2008, the Company recognized \$108,083 and \$938,179 in stock-based compensation relating to the granting of options, respectively. The amount related to employees was \$93,504 and \$557,224 for the year ended October 31, 2009 and 2008, respectively. 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
Balance, October 31, 2007	7,102,286	\$ 0.48
Granted	455,000	0.91
Exercised	(809,286)	(0.20)
Cancelled	(35,000)	(0.88)
Outstanding, October 31, 2008	6,713,000	0.54
Granted	-	-
Exercised	(470,000)	(0.20)
Cancelled	(250,000)	(0.98)
Forfeited	(30,000)	(0.20)
Outstanding, October 31, 2009	5,963,000	\$ 0.55

For employees, the Company uses the Black-Scholes option pricing model to determine the fair value of stock options on the grant date. The following are the weighted average assumptions used for stock options granted for the year ended October 31, 2008:

Risk free interest rate	3.10%
Expected dividend yield	nil
Expected option life (years)	5
Expected stock price volatility	79.75%
Weighted average fair value of options granted at market prices	\$0.59

### *Options granted to non-employees:*

The Company has also granted stock options under the Plan to non-employees.

The Company accounts for non-employee stock-based compensation using the fair value method. Under this method, stock-based compensation expense is recognized as the stock options are earned on a straight-line basis over the vesting period based on the estimated fair values of options granted. During the year ended October 31, 2009 and 2008, the Company recognized \$14,579 and \$380,956, respectively, of compensation expense for stock-based compensation awarded to non-employees as an increase to contributed surplus.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 11. Share capital (continued):

#### *Options granted to non-employees (continued):*

The fair values of options granted are estimated as at the date of grant and re-measured periodically during the vesting period using the Black-Scholes option pricing model with the following weighted average assumptions:

	2009	2008
Risk free interest rate	2.38%	2.72%
Expected dividend yield	nil	nil
Expected option life (years)	5	5
Expected stock price volatility	59%	100%
Weighted average fair value of options granted at market prices	\$0.28	\$0.32

The following table outlines the number of options outstanding and exercisable for employees and non-employees:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.20 - \$0.40	1,684,000	0.65	\$ 0.20	1,684,000	\$ 0.20
\$0.41 - \$0.60	2,000,000	2.06	0.53	2,000,000	0.53
\$0.61 - \$0.98	2,279,000	2.55	0.81	2,254,000	0.81
	5,963,000	1.85	\$ 0.54	5,938,000	\$ 0.54

#### *Contributed surplus:*

A summary of contributed surplus is as follows:

	Continuity
Outstanding, October 31, 2007	\$ 1,286,426
Stock-based compensation	938,180
Transfer to share capital from options exercised	(106,770)
Outstanding, October 31, 2008	2,117,835
Stock-based compensation	108,083
Transfer to share capital from options exercised	(21,400)
Outstanding, October 31, 2009	\$ 2,204,518

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 12. Related party transactions:

The Company has a lease commitment and paid rent of \$ 45,269 (2008 - \$45,269) to a company in which a director has a minority equity interest. On November 1, 2008, the Company signed a three year lease agreement which expires October 31, 2011. In addition to minimum lease payments of \$4,149 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 transactions.

### 13. Commitments:

At October 31, 2009, the Company is committed to future minimum operating lease payments for its premises as follows:

2010	\$ 175,095
2011	111,444
	<u>\$ 286,539</u>

### 14. Earnings (loss) per share:

The following table sets out the computation of basic and diluted loss per common share:

	2009	2008
Numerator:		
Net earnings (loss)	\$ (1,108,966)	\$ 224,320
Denominator:		
Basic weighted-average number of common shares outstanding	45,247,782	44,719,315
Effect of dilutive securities:		
Stock options	-	3,431,931
Dilutive weighted-average number of common shares outstanding	45,247,782	48,151,246
Basis net loss per common share	\$ (0.02)	\$ 0.01
Diluted net loss per common share	\$ (0.02)	\$ 0.00

The calculation of diluted net loss per share excludes 5,963,000 (2008 - 260,000) shares issuable on the exercise of outstanding stock options on the basis that they are non-dilutive.

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 15. Capital risk management:

The Company manages capital in order to safeguard its ability to continue as a going concern, to help ensure that adequate returns are provided to shareholders, and to maintain an appropriate balance of risk and return. The Company strives to accomplish these objectives with the least dilution to its shareholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may incur or repay debt, purchase shares for cancellation pursuant to normal course issuer bids, and issue new shares. The Board of Directors reviews and approves capital and operating budgets and any material transactions outside of the ordinary course of business, including proposals on acquisitions. Total capital managed is determined as follows:

	2009	2008
Line of credit	\$ 1,000,000	\$ 1,000,000
Shareholders' equity	2,928,990	3,835,873
	<u>\$ 3,928,990</u>	<u>\$ 4,835,873</u>

The Company has provided a general security agreement covering all of its assets as security for the line of credit. The line of credit is subject to certain restrictive covenants, including, but not limited to, incurring additional secured debt and selling assets. The Company is also required to meet certain financial covenants under the line of credit agreement. The Company was not in compliance with all reporting requirements under the line of credit agreement, as the Company did not complete the audit of its 2008 financial statements on time. However, the Company had not drawn on the line of credit as at October 31, 2009 and 2008.

### 16. Financial instruments:

The following table presents the carrying amounts of each category of financial assets and liabilities:

	2009	2008
Financial assets:		
Held-for-trading financial assets	\$ 2,676,158	\$ 2,102,666
Loans and receivables	3,544,251	2,851,942
	<u>\$ 6,220,409</u>	<u>\$ 4,954,608</u>
Financial liabilities:		
Other financial liabilities	\$ 8,244,507	\$ 6,443,051

# VENDTEK SYSTEMS INC.

## Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

### 16. Financial instruments (continued):

(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.

During the years ended October 31, 2009 and 2008 approximately 19% (2008 - 0.11%) of the Company's gross margin was originated in U.S. dollars and less than 5% (2008 - 1%) of expenses were incurred in U.S. dollars.

(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 and in the United Arab Emirates. There have been minimal write-offs of receivables in the last five 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 concentrations of credit risk. As at October 31, 2009 the Company's largest customer group accounted for 15% of consolidated revenues, but the amounts due from the group are collected on an individual basis and generally are individually immaterial. As at October 31, 2009, the maximum credit risk exposure for accounts receivable corresponds to the carrying value.

The following table sets forth details of the age of receivables as well as an analysis of overdue amounts and related allowance for doubtful accounts:

	2009	2008
Total accounts receivable	\$ 3,746,015	\$ 2,970,706
Less: allowance for doubtful accounts	201,764	118,764
Total accounts receivable, net	\$ 3,544,251	\$ 2,851,942

# VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2009 and 2008

## 16. Financial instruments (continued):

### (b) Credit risk (continued):

	2009	2008
Of which:		
Current	\$ 2,559,714	\$ 2,125,799
Past due for less than 30 days	180,079	169,975
Past due for less than 60 days	530,834	440,945
Past due for less than 90 days	15,224	64,056
Past due for 90 days or greater	258,400	51,167
Total accounts receivable, net	\$ 3,544,251	\$ 2,851,942

### (c) Liquidity risk:

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by monitoring our cash flows and other anticipated expenses to ensure there are sufficient cash resources to meet forecasted operational expenses and financial obligations.

## 17. Supplementary cash flow information:

	2009	2008
(a) Change in non-cash operating working capital:		
Accounts receivable	\$ (692,309)	\$ 391,566
Inventories	515,511	132,249
Prepaid expenses and deposits	(25,329)	(32,707)
Accounts payable and accrued liabilities	1,846,121	54,527
Taxes recoverable	(434,900)	(78,369)
	\$ 1,209,094	\$ 467,266
(b) Supplementary information:		
Interest paid	\$ 4,343	\$ 63,374
Income taxes paid	-	82,069
Equipment acquired through capital leases	-	18,774

## 18. Segmented disclosure:

The Company has determined that it operates as a single segment. Substantially all of the Company's sales are within Canada, and its assets are also primarily based in Canada.