

VendTek Systems Inc.

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

For the Three and Six Month Periods Ended April 30, 2010

The following Management's Discussion & Analysis, dated June 25, 2010 should be read in conjunction with the financial statements and notes to the consolidated financial statements for the three months and six months ended April 30, 2010. References herein to "VendTek", "the Company", "we" and "our" mean VendTek Systems Inc.

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.

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.

The Company is principally a software application and services company. 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 and the United States directly and through our Now Prepay™ division ("NPP").

Our principal product is our proprietary e-Fresh™ software which consists of a suite of server applications and corresponding end point device software. The e-Fresh™ software is used to create a distribution and transaction processing system which can be used to sell services on proprietary or non-proprietary hardware thereby creating an e-Fresh™ network. Our e-Fresh™ software creates a digital or electronic payment mechanism as a replacement for cash that allows the system to act as an electronic data warehouse in certain business transactions. Historically, the principal usage of e-Fresh™ has been the electronic distribution of prepaid telecommunications products in Canada. In recent years, we have licensed our software internationally to allow our partners to develop a local e-distribution network. The software has other potential applications in situations where businesses are looking to replace cash as a mechanism for payment (i.e. gift cards; prepaid credit cards; bill payment; international mobile top and micro-money transfer; prepaid utilities and prepaid cable TV).

The e-Fresh™ software utilizes point-of-sale ("POS") terminals and other electronic terminals as distribution points (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, Java enabled cell phones, 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.

Organizational Structure

The Company carries on its business through five, directly or indirectly, wholly-owned subsidiaries (each of which are consolidated in the financial statements): VendTek Industries Inc. ("VES"), VendTek Systems International Inc. ("VII"), VendTek Systems Technologies (Beijing) Co. Ltd. ("VST"), VendTek Systems Asia Pacific (Singapore) Pte Ltd. ("VAP"), Gulf Prepay Networks ("GPN") and Now Prepay Servicos de Informatica Ltda. ("NPB").

VES is incorporated in British Columbia. VES operates our legacy vending machine business. These activities are limited to supporting our legacy customers. VES owns VII a company incorporated in the State of Washington, United States. VII is currently inactive.

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. VST's Chinese operations include sales and marketing, customer support and engineering. With six years of operating history, VST is continuing to build business with its primary customer in China and evaluating potential opportunities.

GPN is incorporated in the Cayman Islands with the purpose of developing the e-Fresh™ market in the Middle East. GPN is currently inactive.

VAP is incorporated in Singapore and is currently inactive.

NPB is incorporated in Brazil and was formed on January 2010.

Our Strategy

Our primary goal is to maximize the number of transactions processed through our e-Fresh™ system globally. Our business model is scalable. By maximizing transactions, we also maximize revenues and net income. 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.

We use context-specific strategies for different geographic markets and products. Generally, we will either create or operate an e-Fresh™ network ourselves by reselling purchased services (e.g. as the Company currently does in North America for prepaid telecommunications products), or we will license the e-Fresh™ software on a turnkey basis (e.g. as the company does in the United Arab Emirates), earning profits by charging a transaction based license fee.

When we operate an e-Fresh™ network ourselves, as we do in North America, the business focuses on developing a low cost distribution strategy for its end point device software. To this end, we often use Independent Sales Organizations ("ISO") as distribution partners. These companies deploy terminals used for payment processing and install our software application as a value added service for their merchants. We also sell directly to merchants who may not require an integrated payment/prepaid solution. This operating strategy requires a focus on the product mix being sold to maximize revenues and profits, strong supplier relationships, a clear dedication to operational excellence and a clear strategy for new products and services that can be added to the existing distribution network, all with an eye to maximizing transaction volumes.

When we license our software, as we do internationally, we provide technical support for our customers to make sure they have the opportunity to grow their businesses quickly and cost effectively. To help our licencees expand their distribution networks (serving to increase our revenues), we often provide customized solutions as we did in the case of Carrefour in the United Arab Emirates. In the UAE, Carrefour required our e-Fresh™ system to integrate into their retail POS system so that transactions could be processed from each of the check out locations in every store.

Our licensing model often provides a tiered structure, stipulating minimum monthly fees should the monthly transaction not meet a required level.

Recently, we have also moved to providing software as a service (“SaaS”) solution for some of our international customers. This allows us to leverage our existing North American operations, e-Fresh™ servers, infrastructure and core competencies while at the same time letting our international customers focus on growing their business quickly, without expending the time and effort to set up a back office system. Our staff have extensive experience in managing all the operating details of the back office aspect of running an e-Fresh™ network. By letting our customers use this experience, we can immediately provide to them years of operating knowledge. The strategy further benefits the Company by deepening the relationship between us and our customers. The SaaS solution takes advantage of devices that can use the internet to securely connect to our North American server. These devices include POS terminals that use a cellular data connection, mobile phones and PC’s running our e-Fresh™ PC software. Depending on the extent of the services provided, we are able to charge a higher license fee to those customers using our SaaS offer than under our traditional licensing arrangements.

Overview of Revenues in Canada and the United States

As part of our strategy to develop recurring sources of revenues, we developed our own electronic distribution business across Canada and the United States 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.

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. Due to the lower margins prevalent in our industry, our strategy continues to focus on increasing the volume of transactions processed or distributed through our system.

Prepaid telecom products (prepaid wireless sales dominate the revenues of the prepaid “basket of products” in every geographical market) are sold in a broad category of retail stores. Prepaid products are found in almost every convenience store in North American (not all using electronic delivery) and are also found in grocery, drug store, check cashing, big box stores, electronics stores, etc. Our strategy of partnering with Independent Sales Organizations gives us access to a broad range of merchant types, but typically small chains or independent locations. Our strategy of going direct to the retailer is targeted at larger national chains (for example ESSO) and independent locations that have a high sales volume of prepaid products. We have grown our terminals in Canada from 14,735 on October 31, 2009 to 15,024 on April 30, 2010.

The Company has supply contracts with all the major telecom companies in Canada and wholesale distributors in the United States. These contracts describe our commercial relationships with the carrier and the terms under which we are permitted to resell their products. Generally, we issue a purchase order for the quantity of products we require, we take delivery electronically and we load the products onto our e-Fresh™ system (product files are encrypted throughout this process). These products are sold through retailers connected to the e-Fresh™ network. Our system tracks sales by each merchant and each week we automatically remove the appropriate funds from the merchant’s designated bank account. We subsequently pay our suppliers and provide a commission to an ISO (if an ISO added the merchant to our network).

The majority of growth to-date has come from our Canadian operations. This is evidenced by our terminal growth outlined above. As the terminal growth slows in Canada, we will focus on increasing the transactions initiated and processed through each terminal. These will be done through sales and marketing efforts as well as increasing our product offering.

In the U.S., we believe that there are still significant opportunities to increase our POS terminal deployment. We will continue to focus on adding and supporting ISOs which will allow us to grow our North American operations. We have also grown our terminal presence in the U.S. from 650 terminals on October 31, 2009 to 740 on April 30, 2010. Our strategy in the U.S. is to support our ISOs and add ISOs to increase our terminal deployment.

Our distribution model in North America continues to be focused on higher volume of transactions with lower margins.

International 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. We work closely with our international licensees to assist them in developing the necessary infrastructure to increase the size of our e-Fresh™ network. Historically we have provided a licensee exclusivity in a geographical market. However, we have provided non-exclusive licenses for larger potential markets (such as India) or for an initial period until customer performance is proven.

Consumers in countries outside Canada and the U.S. generally use prepaid products significantly more. We have experienced higher transactions per terminal outside North America.

By licensing our software, we are developing a global footprint for our e-Fresh™ network throughout the world.

We expect to see continued growth in our higher-margin license revenues from our international customers. Our customer in the United Arab Emirates ("UAE") has contributed the majority of our license revenues to-date from transactions in the UAE.

Our revenues from our license customers will continue to grow as our customers deploy POS terminals in their respective regions and add products to their portfolios.

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 direct costs for our license revenues.

Additionally, as we continue to pursue higher-margin license revenues, from international markets, we expect our gross margins will increase.

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 audit, tax and legal services, consulting fees, facilities costs, travel and general corporate overhead.

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. Our sales and development costs in China are partially offset by license revenues from our Chinese customers.

Research and Development Expenses

Our research and development expenses consist primarily of compensation costs 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, China and the UAE. 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.

Critical Accounting Policies and Estimates

There were no changes in our critical accounting policies and estimates from the year ended October 31, 2009.

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 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 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.

Convergence with International Financial Reporting Standards

The Canadian Accounting Standards Board has confirmed the use of International Financial Reporting Standards ("IFRS") for all publicly accountable enterprises in Canada.

Our adoption date of November 1, 2011 will require the restatement, for comparative purposes, of amounts reported by us for our year ended October 31, 2011, and of the opening balance sheet as at November 1, 2010.

The Company's conversion plan consists of four primary stages including planning, assessment, design and implementation with periodic meetings with the Audit Committee to report progress and findings.

The planning stage is in the course of being completed and included identifying and mobilizing the necessary resources, both internal and external, to execute the plan, establishing a conversion timeline and conducting a high level analysis of the differences between Canadian GAAP and IFRS that may be significant to the Company's reported financial position and results of operations. We expect this plan to be complete by July 31, 2010.

We intend to carry out the assessment stage with assistance from external advisors. This stage includes conducting a detailed assessment of the effect of the transition to IFRS on financial reporting, systems and business activities. This assessment is expected to be complete in the by December 31, 2010.

The Company will then commence the design stage which includes completing an assessment of the IFRS estimates of the quantified effects of the anticipated changes to the financial reporting on the Company's IFRS opening balance sheet and identifying business processes and resources that may require modification as a result of these changes.

The Company believes that its plan is sufficient to ensure that the Company will be able to adopt IFRS as of November 1, 2011 when the Company is required to convert.

Financial Instruments

There have been no changes to the Company's financial instruments since the year ended October 31, 2009.

Summary of Quarterly Results

Quarter Ended	Revenue (000's)	Earnings (000's)	Basic & Diluted Earnings(Loss) per share
April 30, 2010	\$30,373	\$(139)	\$(0.00)
January 31, 2010	\$30,351	\$(106)	\$(0.00)
October 31, 2009	\$32,589	\$(763)	\$(0.02)
July 31, 2009	\$32,959	\$(92)	\$(0.01)
April 30, 2009	\$29,837	\$(98)	\$(0.00)
January 31, 2009	\$30,694	\$(156)	\$(0.00)
October 31, 2008	\$32,499	\$5	\$0.00
July 31, 2008	\$32,785	\$93	\$0.01

Off-Balance Sheet Arrangements

VendTek does not have any off-balance sheet arrangements.

Results of Operations

Comparison of the three and six month periods ended April 30, 2010 compared to the three and six month periods ended April 30, 2009

Note: The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: VSTB, VSAP, GPN, VES and VII.

The table below sets forth data from our statements of operations for the three and six month periods ended April 30, 2010 and 2009, expressed as a percentage of total revenue.

	Three Months Ended April 30,		Six Months Ended April 30,	
	2010	2009	2010	2009
Prepaid telecommunication revenue	98.71%	98.72%	98.77%	98.70%
Hardware revenue	0.06%	0.07%	0.09%	0.07%
Software revenue	1.23%	1.21%	1.14%	1.23%
Total revenue	100.00%	100.00%	100.00%	100.00%
Cost of products sold	95.07%	94.94%	95.09%	95.00%
Gross profit	4.93%	5.06%	4.91%	5.00%
General and administrative expense	3.26%	2.83%	3.27%	3.36%
Selling and marketing	0.91%	0.68%	0.79%	0.60%
Research and development	0.70%	0.64%	0.64%	0.65%
Restatement costs	0.23%	0.89%	0.31%	0.44%
Amortization	0.32%	0.34%	0.31%	0.34%
Other expenses	(0.04)%	0.00%	0.00%	0.02%
Loss before income taxes	(0.46)%	(0.33)%	(0.40)%	(0.42)%
Income taxes	0.00%	0.00%	0.00%	0.00%
Net loss	(0.46)%	(0.33)%	(0.40)%	(0.42)%

Three Months Ended April 30, 2010 Compared to Three Months Ended April 30, 2009

Revenue

Revenues for the quarter ended April 30, 2010, increased \$536,000 to \$30.4 million, or 1.8%, from \$29.8 million for the corresponding period in 2009.

Our prepaid telecommunications revenue totalled \$30 million for the quarter ended April 30, 2010, compared to \$29.5 million for same quarter in 2009.

Our virtual prepaid revenues increased by \$1.3 million, or 4.6%, in the second quarter of fiscal 2010 compared to the second quarter of 2009. This was partially offset by a decrease in hard card sales by

\$777,000 from \$817,000 in the second quarter of 2009 to \$40,000 in second quarter of 2010. This decrease is a result of the decision by many telephone companies in Canada to eliminate their hard card products.

Our virtual prepaid revenues in Canada for the quarter ended April 30, 2010 were \$29 million compared to \$28.1 million for the same period in 2009. This represents a 3.1% increase. In the U.S., our virtual prepaid revenues were \$988,000 and \$553,000 in the second quarters of 2010 and 2009 respectively. This equates to a 78.7% increase for the quarter ended April 30, 2010 compared to the corresponding period in 2009. The increase in our virtual prepaid revenue is due to our ongoing installation of POS terminals across Canada and the U.S. for distribution of virtual prepaid telecommunications vouchers (or PINs) through our distribution network.

Our software and related service revenues increased by \$12,000, or 3.3%, to \$373,000 for the second quarter of 2010. We received software and service revenues from the U.A.E, China, Africa, Thailand and the U.S. We also recorded software revenue of \$51,000 U.S. in April 2010 to reflect a payment received from our partner in the Middle East: Privinvest Holdings. We are negotiating a contract with Privinvest to grant territory rights for our e-Fresh™ software. While the contract details have not been finalized, we expect to receive \$50,000 U.S. per month in exchange for exclusivity for our e-Fresh™ software within a specific territory.

While the number of transactions processed through our system in the U.A.E. increased by 20%, our software and services revenue increased only modestly primarily due to the offsetting effect of foreign exchange changes. Our software and related service revenue are denominated in U.S. dollars. We were negatively impacted by the weakening U.S. dollar. The average U.S. exchange rate for the second quarter in fiscal 2010 was 1.03 compared to 1.24 for the same period in 2009.

Our hardware revenue for the second quarter of 2010 was \$19,000 compared to \$21,000 in 2009. The \$2,000 or 12% decrease was due to a decrease in parts orders from customers for the repair of vending machines.

Cost of Revenues

Cost of revenues for the three months ended April 30, 2010, were \$28.9 million, or 95.07% of revenues, compared to \$28.3 million, or 94.94% of revenues for the same quarter in 2009. The consistent low margin is indicative of the virtual prepaid telecommunications industry.

General and Administrative

General and administrative expense increased \$147,000, or 17.3%, to \$990,000 for the three months ended April 30, 2010 as compared to \$843,000 for the three months ended April 30, 2009. As a percentage of revenue, general and administrative expenses were 3.3% and 2.8% for the three months ended April 30, 2010 and 2009 respectively. General and administrative expense increased mainly due to increases in compensation from additional staff, legal, investor relations, director's fees and travel costs.

As all of our options had already vested, stock-based compensation expense decreased by \$45,000 in the second quarter of 2010 compared to the same period in 2009.

Sales and Marketing

Our sales and marketing expenses increased \$75,000, or 36.7%, to \$278,000 in the quarter ended April 30, 2010 as compared to \$203,000 for same period in 2009. As a percentage of revenue, sales and marketing expense was 0.91% and 0.68% for the three months ended April 30, 2010 and 2009 respectively. The increase in sales and marketing expense was primarily due to marketing costs incurred for our launch of our 3V Virtual Visa product.

Research and Development

Product development costs for the three months ended April 30, 2010 were \$213,000, or approximately 0.70% of revenues. This compares to \$192,000, or approximately 0.64% of revenues for the quarter ended April 30, 2009. The \$21,000 increase from 2009 to 2010 is the result of hiring additional engineering staff.

Restatement Costs

Restatement costs consist of accounting, legal and consulting costs incurred. During the second quarter ended April 30, 2010 we incurred \$70,000 of costs related to the restatement of our 2006 and 2007 annual financial statements and the quarters ended January 31, April 30 and July 31, 2008. This is a reduction of \$198,000 compared to the same period of 2009. These costs are one-time expenses that will not continue beyond the second quarter ended April 30th, 2010.

Amortization

Amortization expense decreased to \$98,000, or 0.32% of revenue, in the quarter ended April 30, 2010 compared to \$103,000, or 0.34% of revenue, for the same period in 2009. The decrease in amortization was due to some assets being fully amortized.

Interest on capital leases

Interest expense reduced to \$1,000 in the quarter ended April 30, 2010 down from \$2,000 compared to the same period of 2009. The decrease was due to the partial re-payment of our lease obligations.

Net Loss

The net loss was \$139,000 for the quarter ended April 30, 2010, compared to a net loss of \$98,000 for the same period in 2009 which is an increase of \$41,000.

Six Months Ended April 30, 2010 Compared to Six Months Ended April 30, 2009

Revenue

Revenues for the six months ended April 30, 2010, increased \$193,000 to \$60.7 million, or 0.3%, from \$60.5 million for the corresponding period in 2009.

Our prepaid telecommunications revenues increased \$236,000 (0.4%) for the first six months of 2010 compared to the same period of 2009. Our virtual prepaid revenues increased by \$1.9 million in the first six months of 2010 compared to the first six months of 2009. This was partially offset by a decrease in hard card sales of \$1.7 million from \$1.8 million in the first six months of 2009 to \$98,000 in the same quarter of 2010. This decrease is a result of the decision by many telephone companies in Canada to eliminate their hard card products.

Our virtual prepaid revenues in Canada for the six months ended April 30, 2010 were \$58 million compared to \$57 million for the same period in 2009 which equates to a 1.7% increase. In the U.S., our virtual prepaid revenues were \$1.9 million and \$943,000 in the first six months of 2010 and 2009 respectively (101.8% increase). The increase in our virtual prepaid revenue is due to our ongoing installation of POS terminals across Canada and the U.S. for distribution of virtual prepaid telecommunications vouchers (or PINs) through our distribution network.

Our software and related service revenue decreased by \$56,000, or 7.5%, to \$692,000 for the first six months of fiscal 2010 from \$747,000 during the same period in 2009. We received software and service revenues from the U.A.E, China, Africa, Thailand and the U.S. While the number of transactions processed through our system in the U.A.E. increased by 20%, our software and services revenue decreased primarily due to decreased foreign exchange changes. Our software and related service revenue are denominated in U.S. dollars. We were negatively impacted by the weakening U.S. dollar. The average U.S. exchange rate for the first six months in 2010 was 1.04 compared to 1.24 for the same period in 2009.

Our hardware revenue for the six months ended April 30, 2010 was \$52,000 compared to \$40,000 in 2009. The \$12,000 or 29.7% increase was due to an increase in parts orders from customers for the repair of vending machines.

Cost of Revenues

Cost of revenues for the six months ended April 30, 2010, were \$57.7 million, or 95.09% of revenues, compared to \$57.5 million, or 95.0% of revenues for the same six months in 2009. The consistent low margin is indicative of the virtual prepaid telecommunications industry.

General and Administrative

General and administrative expense decreased \$49,000, or 2.4%, for the six months ended April 30, 2010 as compared to same period in 2009. As a percentage of revenue, general and administrative expenses were 3.27% and 3.36% for the six months ended April 30, 2010 and 2009 respectively.

Included in general and administrative expense for the first six months of fiscal 2010 and 2009 was \$1,000 and \$74,000, respectively, of non-cash stock-based compensation expense. As most of our options had already vested, stock-based compensation expense decreased by \$73,000 in the six months of fiscal 2010 compared to the same period in 2009. General and administrative expense also decreased due to lower travel costs incurred but were partially offset by increases repairs, bad debts provisions and investor relations costs.

Sales and Marketing

Our sales and marketing expenses increased \$113,000, or 31.1%, to \$478,000 in the six months ended April 30, 2010 as compared to \$365,000 for same period in 2009. As a percentage of revenue, sales and marketing expense was 0.79% and 0.60% for the six months ended April 30, 2010 and 2009 respectively. The increase in sales and marketing expense was primarily due to marketing costs incurred for the launch of our 3V Virtual Visa product.

Research and Development

Product development costs for the six months ended April 30, 2010 were \$386,000, or approximately 0.64% of revenues and were reasonably consistent with the prior year's costs of \$396,000, or approximately 0.65% of revenues for the six months ended April 30, 2009.

Restatement Costs

Restatement costs consist of accounting, legal and consulting costs incurred. During the six months ended April 30, 2010 we incurred \$190,000 of costs related to the restatement of our 2006 and 2007 annual financial statements and the quarters ended January 31, April 30 and July 31, 2008. This is a decrease of \$76,000 compared to the same period of 2009. These costs are one-time expenses that will not continue beyond the second the quarter ended April 30th, 2010.

Amortization

Amortization expense decreased to \$188,000, or 0.31% of revenue, in the six months ended April 30, 2010 compared to \$203,000, or 0.34% of revenue, for the same period in 2009. The decrease in amortization was due to some assets being fully amortized.

Interest on capital leases

Interest expense reduced to \$2,000 in the six months ended April 30, 2010 down from \$6,000 compared to the same period of 2009. The decrease was due to the partial re-payment of our lease obligations.

Net Loss

The net loss was \$245,000 for the six months ended April 30, 2010, compared to a net loss of \$254,000 for the same period in 2009

Liquidity and Capital Resources

As of April 30, 2010, cash totalled approximately \$1.2 million compared to approximately \$2.7 million at October 31, 2009. Our cash position can fluctuate significantly from period to period, largely as a result of differences in the timing, size and number of transactions, the timing of the receipt of proceeds from retailers, and the timing of the payment of net amounts due to suppliers. We generally collect proceeds from retailers within seven days of the transaction and payments to suppliers approximately 21 days following the purchase of inventory. If collections from retailers or suppliers occur near a period end, our cash position will be affected accordingly.

Cash Flows Used in Operating Activities

Operating activities used cash of \$1.5 million during the six months ended April 30, 2010, and provided cash of \$113,000 during the six months ended April 30, 2009. In the six months ended April 30, 2010, cash was decreased by a \$1.1 million increase in inventory and an \$821,000 decrease in accounts payable. Our inventory balance was higher due to approx \$1.0 million of additional inventory purchased during the month of April 2010 in order to take advantage of product discount reductions that were to become effective May 1, 2010. Our accounts payable balance was lower as we paid restatement costs and GST outstanding at year end.

Cash was provided by a \$477,000 decrease in accounts receivable and \$6,000 decrease in prepaid expenses. This decrease in accounts receivable is mainly due to the weekly timing cycle of our collections and that the current period ended April 30, 2010 had one less day of outstanding receipts compared to the year end period of October 31, 2009.

Cash Flows from Investing Activities

Investing activities used cash of \$83,000 and \$50,000 during the six months ended April 30, 2010 and 2009, respectively. The funds were mainly used to purchase equipment.

Cash Flows from Financing Activities

Financing activities provided net cash of \$53,000 and used cash of \$17,000 during the six month periods ended April 30, 2010 and 2009, respectively. Cash used for repayments of the Company's lease obligations were \$12,000 and \$16,000 in 2010 and 2009 respectively and cash was provided through the exercise of stock options for \$65,000 in 2010.

Share Capital

We have authorized capital consisting of 100,000,000 common shares without par value. The shares of the Company are publicly traded on the Toronto Stock Venture Exchange under the symbol "VSI".

As at the date of this MD&A, there are 46,164,461 shares outstanding and 5,314,000 of options outstanding.

Summary of Options Activity

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

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

	Number of shares	Weighted average exercise price
Balance, October 31, 2009	5,963,000	\$ 0.55
Granted	-	-
Forfeited	(10,000)	0.20
Cancelled	(195,000)	0.41
Exercised	(324,000)	0.20
Balance, April 30, 2010	5,434,000	\$ 0.57

Related Party Transactions

The Company has a lease commitment and paid rent of \$24,894 during the six month period ended April 30, 2010 to a company in which a director has a minority equity interest. The agreement expires on 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 terms and conditions consistent with arms' length transactions.

During the six months ended April 30, 2010, the Company recognized \$51,000 of revenue from a shareholder of the Company. As at April 30, 2010, the \$51,000 balance is recorded within accounts receivable.

Outlook

We have a multi-point strategy to drive growth with the primary goal of increasing the number of transactions processed through our e-Fresh™ system globally.

Revenues

Going forward, we expect to focus on increasing transaction volumes and sales by deploying e-Fresh™ software to point-of-sale terminals through the NPP network in North America and by supporting existing and adding new partners in international markets.

In Canada, we expect that we will continue to add additional POS terminals and products. While the terminal growth in Canada will unlikely match the growth we have already experienced, we expect that we will see transaction growth from products recently added to our system such as Ukash, prepaid credit cards, and international mobile top-up. These additional products do not require significant capital outlay.

In the U.S., we expect that we will continue to support our existing ISOs and add new ISOs. We believe that our successful execution of this strategy in Canada can be replicated in the U.S. As our ISOs continue to deploy new POS terminals, we believe that we can cost effectively increase our NPP network. We also expect to add additional products to our network in the U.S. We are planning to add additional financial products and bill payment services.

International markets for prepaid telecommunications products are larger than North America. We expect to see continued growth in higher-margin license revenues from our international customers. While our partner in the UAE has contributed the majority of license revenues to-date from transactions in the UAE and Africa, we expect that our new partners in Africa, India and Thailand will launch in 2010 and contribute increasing license fees as their operations expand. We will continue to expand our international network by seeking additional license opportunities. In specific circumstances, we may pursue opportunities to launch our network ourselves in some international markets.

Gross Margins

Generally, while we expect our revenue mix to continue to be dominated by our Canadian revenues (due to the way we recognize our revenues), the global scope of our operations is better evidenced by our gross margins. For example, in 2009, while 1.1% of our revenues were derived from international license revenues, 22% of our gross margin was from international license revenues.

In Canada, we expect to see continued margin pressure as the prepaid telecommunication market matures. Some Canadian carriers have recently announced the reduction in some product channel margins effective May 1, 2010, which could further reduce our margins. This may be partially offset by the increase in sales for higher-margin financial products. This may also be the case for the U.S.

Internationally, we receive 100% margin transaction fees. Currently, we process about 200,000 transactions a day which improve our lower margin distribution revenues in North America.

We expect our gross margins percentage to increase as our international revenues increase.

Operating Expenses

While we focus on reducing our costs, we expect our operating expenses to remain consistent as a percentage of revenues. However, we expect that our operating expense directed towards our Canadian market will shift as our international operations expand.

Risks Related to our Business

There has been no significant change in our risk factors from those described in our 2009 Management Discussion and Analysis. Please refer to our 2009 Management Discussion and Analysis for more information.

Forward-looking Statements

This Management's Discussion and Analysis contains statements which are not current statements or historical facts and are "forward-looking information" within the meaning of applicable Canadian securities laws. All statements, other than statements of historical fact, contained in this Management's Discussion and Analysis constitute forward-looking information. Wherever possible, words such as "plans", "expects" or "does not expect", "budget", "forecasts", "projections", "anticipate" or "does not anticipate", "believe", "intent", "potential", "strategy", "schedule", "estimates" and similar expressions or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved and other similar expressions have been used to identify forward-looking information. These forward-looking statements relate to, among other things the Company's expectations regarding future growth, results of operations (including, without limitation, future production and sales, and operating and capital expenditures), performance (both operational and financial), business and political environment and business prospects (including the timing and development of new deposits and the success of exploration activities) and opportunities.

Although the forward-looking information in this Management's Discussion and Analysis reflects the Company's current beliefs on the date of this Management's Discussion and Analysis based upon information currently available to management and based upon what management believes to be reasonable assumptions, the Company cannot be certain that actual results, performance, achievements, prospects and opportunities, either expressed or implied, will be consistent with such forward-looking information. By its very nature, forward-looking information necessarily involves significant known and unknown risks, assumptions, uncertainties and contingencies that may cause the Company's actual results, assumptions, performance, achievements, prospects and opportunities in future periods to differ materially from those expressed or implied by such forward-looking information. These risks and uncertainties include, among other things, revenue growth, operating results, the market demand for our products, product development, and litigation as well other factors described in the Risks Related to Our Business Section in our 2009 annual Management Discussion and Analysis. There may be other factors that cause results, assumptions, performance, achievements, prospects or opportunities in future periods not to be as anticipated, estimated or intended.

There can be no assurances that forward-looking information and statements will prove to be accurate, as many factors and future events, both known and unknown could cause actual results, performance or achievements to vary or differ materially, from the results, performance or achievements that are or may be expressed or implied by such forward-looking statements contained in this Management's Discussion and Analysis. Accordingly, all such factors should be considered carefully when making decisions with respect to the Company, and prospective investors should not place undue reliance on forward-looking information. Forward-looking information is as of June 25, 2010. The Company assumes no obligation to update or revise forward-looking information to reflect changes in assumptions, changes in circumstances or any other events affecting such forward-looking information, except as required by applicable law.

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