

Consolidated Financial Statements of

VENDTEK SYSTEMS INC.

Three months ended January 31, 2011 and 2010
(Unaudited)

Notice to Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the company have been prepared by and are the responsibility of the company's management.

The company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

VENDTEK SYSTEMS INC.

Consolidated Balance Sheets

(expressed in Canadian dollars)

	January 31, 2011 (Unaudited)	October 31, 2010 (Audited)
Assets		
Current assets:		
Cash	\$ 1,696,848	\$ 4,832,659
Restricted cash (note 2)	119,760	-
Accounts receivable	4,895,273	4,132,963
Inventories (note 3)	1,752,449	1,993,818
Prepaid expenses and deposits	375,174	141,086
	<u>8,839,504</u>	<u>11,100,526</u>
Equipment	537,864	554,768
Intangible assets	243,272	266,496
Goodwill	907,342	907,342
	<u>\$ 10,527,982</u>	<u>\$ 12,829,132</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,322,808	\$ 9,764,295
Capital lease obligation	6,374	7,587
Deferred revenue	40,060	52,030
	<u>7,369,242</u>	<u>9,823,912</u>
Convertible debentures (note 4)	311,422	-
	<u>7,680,664</u>	<u>9,823,912</u>
Shareholders' equity:		
Share capital (note 5)	9,053,612	9,053,612
Contributed surplus (note 5)	2,301,369	2,015,055
Accumulated deficit	(8,507,663)	(8,063,447)
	<u>2,847,318</u>	<u>3,005,220</u>
	<u>\$ 10,527,982</u>	<u>\$ 12,829,132</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

"signed"

Garth Albright, Director

"signed"

Martin Parent, Director

VENDTEK SYSTEMS INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit
(expressed in Canadian dollars)
(Unaudited)

For the three months ended January 31, 2011 and 2010

	2011	2010
Revenue:		
Prepaid telecommunication	\$ 25,993,564	\$ 29,999,456
Hardware and equipment	18,056	33,488
Software license and services	509,317	318,294
	<u>26,520,937</u>	<u>30,351,238</u>
Cost of revenues:		
Prepaid telecommunication	25,062,747	28,866,174
Hardware and equipment	2,477	2,937
Software license and services	81,856	-
	<u>25,147,080</u>	<u>28,869,111</u>
	<u>1,373,857</u>	<u>1,482,127</u>
Operating expenses:		
General and administrative	1,142,801	997,734
Selling and marketing	369,370	200,071
Research and development	213,045	172,700
Restatement costs	-	120,000
Amortization	80,053	89,492
Interest and accretion on long term debt	1,791	1,355
Foreign exchange loss	11,013	7,049
	<u>1,818,073</u>	<u>1,588,401</u>
Net loss and comprehensive loss	(444,216)	(106,274)
Deficit, beginning of period	(8,063,447)	(7,735,660)
Deficit, end of period	<u>\$ (8,507,663)</u>	<u>\$ (7,841,934)</u>
Basic and diluted loss per share	\$ (0.01)	\$ (0.00)
Weighted average shares outstanding:		
Basic	47,324,461	45,980,723
Diluted	47,324,461	45,980,723

See accompanying notes to consolidated financial statements.

VENDTEK SYSTEMS INC.

Consolidated Statements of Cash Flows
(expressed in Canadian dollars)
(Unaudited)

For the three months ended January 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net loss	\$ (444,216)	\$ (106,274)
Items not involving cash:		
Amortization	80,053	89,492
Accretion of convertible debentures	1,160	-
Loss on disposal of assets	378	-
Stock-based compensation	46,576	1,404
	(316,049)	(15,378)
Changes in non-cash operating working capital items	(3,208,486)	(250,765)
	(3,524,535)	(266,143)
Financing:		
Repayment of lease obligations	(1,213)	(7,321)
Increase in restricted cash	(119,760)	-
Issue of convertible debentures	550,000	-
Proceeds from options exercised	-	64,800
	429,027	57,479
Investments:		
Purchase of equipment	(40,303)	(32,686)
Decrease in cash	(3,135,811)	(241,350)
Cash, beginning of period	4,832,659	2,676,158
Cash, end of period	\$ 1,696,848	\$ 2,434,808
Supplemental information:		
Interest paid	\$ 269	\$ 1,355

See accompanying notes to consolidated financial statements.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three months ended January 31, 2011 and 2010

1. Basis of presentation:

The unaudited interim consolidated financial statements for the three months ended January 31, 2011, should be read in conjunction with the audited consolidated financial statements of VendTek Systems Inc. (the "Company") for the year ended October 31, 2010. These interim financial statements conform in all material respects to the requirements of Canadian generally accepted accounting principles for interim financial statements and are based on accounting principles and practices consistent with those used in the payments of the annual consolidated financial statements.

Certain comparative figures have been reclassified to conform to the financial presentation adopted for the current period.

2. Restricted cash:

The Company is required to have a \$119,760 (BRL \$200,000) deposit with a bank in Brazil as collateral for a guaranteed letter of credit issued to one of its suppliers.

3. Inventories:

Inventories consisted of the following at January 31:

	January 31, 2011	October 31, 2010
Prepaid products	\$ 1,744,502	\$ 1,985,871
Hardware parts	7,947	7,947
	<u>\$ 1,752,449</u>	<u>\$ 1,993,818</u>

4. Convertible Debentures:

On January 26, 2011, the Company issued 550 units (the "Units") in a private placement offering for gross proceeds of \$550,000. Each Unit consists of one unsecured convertible debenture of the Company having a principal amount of \$1,000 (the "Debentures") and 500 Warrants, each being exercisable to acquire one common share of the Company (the "Warrants"). Each Warrant allows its holder to buy one share of the Company until January 26, 2014, at a price of \$1.00.

The Debentures will mature (unless converted or redeemed) on January 26, 2014. The Debentures will accrue interest at 6% per annum, payable semi-annually and are convertible into common shares, at the holder's option, at any time prior to maturity at \$0.64 per common share. The Debentures are redeemable, in whole or in part, by the Company at any time at a premium of 3% to the outstanding principal amount redeemed. In the event of an early redemption of the Debentures, the exercise price of the Warrants will be reduced by up to \$0.25 (on a pro rata basis relative to the amount of the Debentures redeemed) per common share.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three months ended January 31, 2011 and 2010

4. Convertible Debentures (continued):

The Warrants further provide that if the closing average trading price of the Company's common shares for a period of 20 consecutive trading days exceeds \$1.50, then the Company may provide notice to the holders of the Warrants that they have only 30 days to exercise the warrants or they will expire.

As required by Canadian GAAP, the Company separated the liability and equity components of the Units. Proceeds from the issuance of the Units were allocated to the liability and equity components of the Debentures and to the Warrants using the residual method. The fair value of the liability component was determined based on the future payments of principal and interest for a debt instrument of comparable maturity and credit quality but excluding any conversion option by the holder. . The Company has also identified that the redemption feature is considered to be an embedded derivative, and as a result, should be carried at fair value, with any changes in the fair value being recorded in the Company's statement of operations. The Company has calculated the fair value of this derivative separately, and has recorded it against the liability portion of the Debentures.

The difference between the proceeds received and the fair value of the liability component calculated at the date of issuance was allocated as the equity component, which includes the values of both the conversion feature, as well as the Warrants. The liability component will be accreted through the term of the Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying Debentures are converted into common shares or repaid.

The following summarizes the face and carrying value of the liability and equity components of the Debentures at January 31, 2011:

	Liability Components		Equity Components
	Face Value	Carrying Value	Carrying Value
Balance, as at issuance			
January 26, 2011	\$ 550,000	\$ 310,262	\$ 239,738
Accretion	-	1,160	
Balance, as at January 31, 2011	\$ 550,000	\$ 311,422	\$ 239,738

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements
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For the three months ended January 31, 2011 and 2010

5. Share capital:

(a) Authorized:

Unlimited common shares without par value.

Unlimited preference shares without par value.

(b) Common shares issued and outstanding:

	Three months ended January 31, 2011		Three months ended January 31, 2010	
	Number of shares	Amount (000's)	Number of shares	Amount (000's)
Common shares issued:				
Balance, beginning of period	47,324,461	\$ 9,053,612	45,720,461	\$ 8,460,132
Stock options exercised	-	-	324,000	119,880
Balance, end of period	47,324,461	\$ 9,053,612	46,044,461	\$ 8,580,012

(c) Contributed surplus:

A summary of contributed surplus is as follows:

Balance, October 31, 2009	\$ 2,204,518
Stock-based compensation	83,217
Transfer to share capital from options exercised	(272,680)
Balance, October 31, 2010	2,015,055
Stock-based compensation	46,576
Equity component of convertible debentures and warrants	239,738
Balance, January 31, 2011	\$ 2,301,369

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5. Share capital (continued):

(d) 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. 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, 2010	4,912,000	\$ 0.61
Cancelled and forfeited	(10,000)	0.88
Balance, January 31, 2011	4,902,000	\$ 0.61

No options were granted for the three months ended January 31, 2011 (2010 – nil).

The following table summarizes information about share options outstanding at January 31, 2011 for employees and non employees:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.20 - \$0.40	50,000	0.12	\$0.30	50,000	\$0.30
\$0.41 - \$0.60	2,995,000	2.02	0.50	2,373,571	0.51
\$0.61- \$0.98	1,857,000	1.25	0.80	1,857,000	0.80
\$0.20 –\$0.98	4,902,000	1.71	\$0.61	4,280,571	\$0.63

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6. Related party transactions:

The Company has a lease commitment and during the three months ended January 31, 2011, paid rent of \$12,447 (2010 - \$12,447) 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.

During the three month period ended January 31, 2011, the Company recognized \$153,749 (USD \$153,000) of revenue from a shareholder of the Company. As at January 31, 2011, \$50,075 (USD \$50,000) of this amount is recorded within accounts receivable.

The transactions were in the normal course of operations and, in management's opinion, undertaken with the terms and conditions consistent with arms' length transactions.

7. 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.

8. Subsequent events:

Convertible Debenture Financing:

On February 22, 2011, the Company completed the sale of a brokered private placement offering of 2,500 units for gross proceeds of \$2,500,000. These units have the identical attributes as the 550 units described in note 4.

Equity Financing:

On February 28, 2011, the Company completed the sale of an additional private placement offering of 1,695,000 units for gross proceeds of \$1,017,000. Each Unit consists of one common share in the capital of the Company and one-half common share purchase warrant (each whole common share purchase warrant, a "Warrant"). Each Warrant is exercisable for three years from the closing of the Offering to acquire one Common Share at a price of \$0.75 per Common Share.