

Consolidated Financial Statements of

VENDTEK SYSTEMS INC.

Three and nine months ended July 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)

	July 31, 2011 (Unaudited)	October 31, 2010 (Audited)
Assets		
Current assets:		
Cash	\$ 3,108,709	\$ 4,832,659
Restricted cash (note 3)	511,516	-
Accounts receivable	4,468,506	4,132,963
Inventories (note 4)	4,290,635	1,993,818
Deposits	396,888	50,505
Prepaid expenses	329,537	90,581
	<u>13,105,791</u>	<u>11,100,526</u>
Equipment	505,832	554,768
Intangible assets	189,992	266,496
Goodwill	907,342	907,342
	<u>\$14,708,957</u>	<u>\$ 12,829,132</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,698,619	\$ 9,764,295
Capital lease obligation	3,895	7,587
Deferred revenue	33,028	52,030
	<u>10,735,542</u>	<u>9,823,912</u>
Convertible debentures (note 5)	1,766,988	-
	<u>12,502,530</u>	<u>9,823,912</u>
Shareholders' equity:		
Share capital (note 6)	9,956,405	9,053,612
Contributed surplus (note 6)	3,523,050	2,015,055
Accumulated deficit	(11,273,028)	(8,063,447)
	<u>2,206,427</u>	<u>3,005,220</u>
	<u>\$14,708,957</u>	<u>\$ 12,829,132</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

“signed “

“signed “

Garth Albright, Director

Martin Parent, Director

VENDTEK SYSTEMS INC.

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

	Three months ended July 31,		Nine months ended July 31,	
	2011	2010	2011	2010
Revenues:				
Prepaid telecommunication	\$ 28,011,999	\$ 30,972,641	\$ 80,239,728	\$ 90,952,606
Hardware and equipment	31,831	8,245	63,713	60,719
Software license and services	385,237	482,618	1,297,479	1,174,160
	28,429,067	31,463,504	81,600,920	92,187,485
Cost of revenues:				
Prepaid telecommunication	27,067,043	29,850,153	77,457,233	87,589,104
Hardware and equipment	24,054	-	28,473	4,246
Software license and services	-	-	81,856	-
	27,091,097	29,850,153	77,567,562	87,593,350
	1,337,970	1,613,351	4,033,358	4,594,135
Operating expenses:				
General and administrative	1,455,505	1,233,479	3,908,993	3,220,892
Selling and marketing	687,238	197,743	2,012,348	675,560
Research and development	194,418	211,941	604,690	597,869
Restatement costs	-	-	-	189,867
Accretion of convertible debentures	126,741	-	225,452	-
Amortization	81,932	100,556	242,746	288,373
Interest expense	197,048	1,286	233,389	3,616
Loss (Gain) on disposal of assets	(518)	280	8,748	(5,442)
Foreign exchange loss (gain)	(14,527)	(9,663)	6,573	(8,887)
	2,727,837	1,735,622	7,242,939	4,961,848
Net loss and comprehensive loss	(1,389,867)	(122,271)	(3,209,581)	(367,713)
Deficit, beginning of period	(9,883,161)	(7,981,102)	(8,063,447)	(7,735,660)
Deficit, end of period	\$ (11,273,028)	\$ (8,103,373)	\$ (11,273,028)	\$ (8,103,373)
Basic and diluted loss per share	\$(0.03)	\$ (0.00)	\$(0.07)	\$ (0.01)
Weighted average shares outstanding:				
Basic	49,192,909	46,088,051	48,352,122	46,003,787
Diluted	49,192,909	46,088,051	48,352,122	46,003,787

See accompanying notes to consolidated financial statements.

VENDTEK SYSTEMS INC.

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

	<u>Three months ended July 31,</u>		<u>Nine months ended July 31,</u>	
	2011	2010	2011	2010
Cash provided by (used in):				
Operations:				
Net loss for the period	\$ (1,389,867)	\$ (122,271)	\$ (3,209,581)	\$ (367,713)
Items not involving cash:				
Amortization expense	81,932	100,556	242,746	288,373
Accretion expense	126,741	-	225,452	-
Loss (gain) on disposal of assets	(518)	280	8,748	(5,442)
Stock-based compensation	45,733	32,875	141,494	34,279
	<u>(1,135,979)</u>	<u>11,440</u>	<u>(2,591,141)</u>	<u>(50,503)</u>
Changes in non-cash operating working capital items	1,147,557	1,590,949	(2,302,377)	186,239
	<u>11,578</u>	<u>1,602,389</u>	<u>(4,893,518)</u>	<u>135,736</u>
Financing:				
Increase in restricted cash	(148,396)	-	(511,516)	-
Proceeds on issue of convertible debentures	-	-	2,798,712	-
Proceeds on issue of shares	-	-	935,690	-
Proceeds from options exercised	30,714	80,000	76,428	144,800
Repayment of lease obligations	(1,246)	(785)	(3,692)	(12,869)
	<u>(118,928)</u>	<u>79,215</u>	<u>3,295,622</u>	<u>131,931</u>
Investments:				
Purchase of equipment	(22,906)	(32,046)	(104,569)	(129,982)
Proceeds on disposition of assets	-	1,027	-	20,405
Purchase of intangibles	(5,084)	(36,386)	(21,485)	(41,252)
	<u>(27,990)</u>	<u>(67,405)</u>	<u>(126,054)</u>	<u>(150,829)</u>
Increase (decrease) in cash	(135,340)	1,614,199	(1,723,950)	116,838
Cash, beginning of period	3,244,049	1,178,797	4,832,659	2,676,158
Cash, end of period	<u>\$ 3,108,709</u>	<u>\$ 2,792,996</u>	<u>\$ 3,108,709</u>	<u>\$ 2,792,996</u>
Supplemental information:				
Interest paid	\$ 66,945	\$ 1,286	\$ 67,846	\$ 3,616

See accompanying notes to consolidated financial statements.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and nine months ended July 31, 2011 and 2010

1. Basis of presentation:

The unaudited interim consolidated financial statements for the three and nine months ended July 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.

2. Going concern:

While the accompanying consolidated financial statements are prepared on a going-concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business, there are material uncertainties and conditions that cast significant doubt about the validity of this assumption.

The Company must seek additional forms of debt or equity financing in order to continue its expansion into Brazil and for its mobile commerce platform. Management is confident that the Company can raise the additional capital, but there are no assurances that the Company will be successful.

These consolidated financial statements do not reflect adjustments to the carrying values of the assets and liabilities, reported revenues and expenses, and balance sheet classifications that would be necessary if the company was unable to continue as a going concern. Such adjustments could be material

3. Restricted cash:

The Company is required to have a \$511,516 (BRL \$831,193) deposit with a bank in Brazil as collateral for guaranteed letters of credit issued to its suppliers.

4. Inventories:

Inventories consisted of the following:

	July 31, 2011	October 31, 2010
Prepaid products	\$ 4,282,688	\$ 1,985,871
Hardware parts	7,947	7,947
	<hr/>	<hr/>
	\$ 4,290,635	\$ 1,993,818

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements
(Unaudited)

For the three and nine months ended July 31, 2011 and 2010

5. Convertible Debentures:

On January 26, 2011, the Company issued 550 units (the "Units") in a private placement offering for gross proceeds of \$550,000. On February 22, 2011, the Company issued an additional 2,500 brokered units for gross proceeds of \$2,500,000. 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 or February 22, 2014 respectively, at a price of \$1.00.

The Debentures will mature (unless converted or redeemed) on January 26, 2014 or February 22, 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.

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.

VENDTEK SYSTEMS INC.

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

5. Convertible Debentures (continued):

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

	Liability Components		Equity Components	
	Face Value	Carrying Value	Warrants Carrying Value	Other Carrying Value
Balance, as at issuance January 26, 2011	\$ 550,000	\$ 310,262	\$29,486	\$ 210,252
Accretion	-	41,436		
Balance, as at issuance February 22, 2011	\$2,500,000	\$ 1,231,274	\$125,137	\$ 892,301
Accretion	-	184,016		
Balance, as at July 31, 2011	\$ 3,050,000	\$ 1,766,988	\$154,623	\$ 1,102,553

6. Share capital:

(a) Authorized:

Unlimited common shares without par value.

Unlimited preference shares without par value.

(b) Common shares issued and outstanding:

	Nine months ended July 31, 2011		Nine months ended July 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	192,858	128,428	724,000	267,880
Issue of shares (note 5(e))	1,695,000	774,365	-	-
Balance, end of period	49,212,319	\$ 9,956,405	46,444,461	\$ 8,728,012

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6. Share capital (continued):

(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	141,494
Equity component of convertible debentures (note 4)	1,102,553
Warrants attached to convertible debentures (note 4)	154,623
Warrants attached to equity issue (note 5(e))	161,325
Transfer to share capital from options exercised	(52,000)
Balance, July 31, 2011	\$ 3,523,050

(d) Stock options:

The Company has a stock option plan (the "Plan") whereby it may grant up to 9,803,892 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
Granted	125,000	0.67
Cancelled or forfeited	(132,142)	0.50
Exercised	(192,858)	0.40
Balance, July 31, 2011	4,712,000	\$ 0.63

VENDTEK SYSTEMS INC.

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6. Share capital (continued):

The following table summarizes information about share options outstanding at July 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
\$0.41 - \$0.60	2,865,000	1.42	0.51	2,512,143	0.51
\$0.61- \$0.98	1,847,000	1.00	0.80	1,847,000	0.80
\$0.20 - \$0.98	4,712,000	1.45	\$0.62	4,359,143	\$0.63

(e) Warrants:

On February 28, 2011, the Company issued 1,695,000 equity units in a private placement offering for gross proceeds of \$1,017,000. Each of these units consists of one common share and one half common share purchase warrant, with warrant being exercisable to acquire one common share of the Company. Each Warrant allows its holder to buy one share of the Company until February 28, 2014, at a price of \$0.75.

Total warrants outstanding are those noted above in addition to the warrants attached to the convertible debentures (note 4).

The following table summarizes the continuity of the Company's warrants:

	Number of shares	Weighted average exercise price
Balance, October 31, 2010	0	\$ 0.00
Issued from the non-brokered convertible debenture financing	275,000	1.00
Issued from the brokered convertible debenture financing	1,250,000	1.00
Issued as a result of the equity financing	847,500	0.75
Exercised	0	0.00
Balance, July 31, 2011	2,372,500	\$ 0.91

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7. Related party transactions:

The Company has a lease commitment and during the three and nine months ended July 31, 2011, paid rent of \$12,447 and \$37,341 (2010 - \$12,447 and \$37,341) 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 nine month period ended July 31, 2011, the Company recognized \$450,738 (USD \$459,000) of revenue from a shareholder of the Company. As at July 31, 2011, \$95,550 (USD \$100,000) of this amount is recorded within accounts receivable. The shareholder also participated in the financings completed by the Company (notes 4 and 5). The shareholder contributed 25% of the total amount raised.

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.

8. 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.

9. Subsequent event:

On September 12, 2011, the Company announced a private placement raising up to \$3,000,000. The private placement consists of up to 5 million units at a price of \$0.60 per unit. Each unit will consist of one common share in the capital of the Company and one-half warrant. Each full warrant will be exercisable to acquire one additional common share for three years from the closing of the private placement at a price of \$0.75 cents per common share.