**VendTek Systems Inc.**

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

**For the Fiscal Years Ended October 31, 2011, and 2010**

*The following Management's Discussion & Analysis, dated January 26th, 2012, should be read in conjunction with the financial statements and notes to the consolidated financial statements for the fiscal years ended October 31, 2011 and October 31, 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 applications and services company. We develop, market and license 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") and in Brazil through our wholly owned subsidiary Now Prepay Servicos de Informatica Ltda. ("NPS"). We also license our software to third parties around the world including countries like China, Africa, and the U.A.E.

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 any (including mobile) web browser 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 (“NPS”).

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 seven years of operating history, VST is continuing to build business with its primary customer in China and evaluating potential opportunities.

NPS is incorporated in Brazil. The Company’s objective is to expand its e-Fresh™ network in Brazil by deploying its efresh device software in retail POS systems, POS terminals, and mobile devices to more merchant locations and adding value-added products to sell to the merchant locations.

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.

*Our Strategy*

Our primary goal is to maximize the number of transactions processed through our e-Fresh™ network globally. To achieve this goal, we plan to:

1. Deploy eFresh networks in additional countries

2. Grow each deployed eFresh network

3. Add new products and services for each network and that can overlap networks.

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

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. Additionally, SaaS allows our customers to launch their networks faster than if deploying an in-country server. We can now launch a new customer in a matter of a few weeks under the right circumstances. 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 our customers and us. 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.

Finally, we have expanded our technology offering by developing a mobile commerce platform ("MCP"). The platform is intended to allow consumers to initiate transactions directly from their mobile phones. This allows us to increase the reach of our products and services to the end-user and potentially increase our margins.

The initial launch of this technology will focus on moving money to/from a mobile network operator and a financial institution and allow for the consumer to be paid (for example from an employer) into their mobile wallet account. Additional enhancements will focus on developing our own mobile wallet to allow for peer-to-peer transfers, international remittance, bill payment and mobile airtime top-up directly from a consumer's mobile phone. The MCP is targeted primarily towards mobile network operators and financial institutions where a significant portion of the population is un-banked.

*Overview of Revenues in Canada, the United States and Brazil*

As part of our strategy to develop recurring sources of revenues, we developed our own electronic distribution networks across Canada, United States and Brazil 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. In North America, 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, the United States and the NPS network in Brazil, increase the product base available to the NPP and NPS networks and develop new international markets for the e-Fresh™ software. Due to the low channel margins prevalent in the prepaid wireless industry, our strategy continues to focus on increasing the volume of transactions processed or distributed through our system and adding a variety of higher margin products.

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, pharmacy, check cashing, big box, and 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 maintained our terminals in Canada from 15,051 on October 31, 2010 to 15,481 on October 31, 2011.

The Company has supply contracts with all the major telecom companies in Canada and Brazil and wholesale distributors in the United States. These contracts describe our commercial relationships with the telecom company and the terms under which we are permitted to resell their products.

In North America, we generally 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).

In Brazil, the process is slightly different. Generally, the products are sold through retailers connected to the e-Fresh™ network, but may not require advance purchase by the Company. Our connection to the mobile network operators allows us to directly recharge the customers’ account without loading to our system in advance. We collect the funds from the retailer on a semi-weekly basis.

The majority of growth to-date has come from our Canadian operations. This has been 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 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 1,007 terminals on October 31, 2010 to 1,415 on October 31, 2011. Our strategy in the U.S. is to support our ISOs and add ISOs to increase our terminal deployment.

In Brazil, our strategy is to market to retailers directly. We will also look at opportunities to expand our product offerings beyond telecommunications to include financial products. We have grown our terminal presence in Brazil from zero terminals on October 31, 2010 to about 1,400 on October 31, 2011.

*International Revenues*

In our international markets, we receive higher margin revenue with minimal costs for us.

We license our e-Fresh™ and MCP software to third-parties (service providers, retailers and retail distributors, mobile network operators, and financial institutions) 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 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 have developed a global footprint for our e-Fresh™ network. We have customers 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 from the Middle East.

Our revenues from our license customers will continue to grow as our customers deploy the e-Fresh™ software in retail locations in their respective regions and add products to their portfolios.

*Cost of Revenues*

Costs of products and services sold primarily consist of payments to suppliers who provide cellular and long distance telephone time. There may also be payments made to various service providers associated with production and shipping of products, site commissions, transaction processing expenses and consultants. We do not have significant costs for our license revenues.

*General and Administrative Expenses*

General and administrative expenses consist primarily of compensation for employees in executive and operational functions, including finance and accounting. Other significant costs include professional fees for accounting and legal services, consulting fees, facilities costs, 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. Our Brazilian operations are also classified as selling and marketing expenses as they relate primarily to sales efforts to expand our network in the country.

*Research and Development Expenses*

Our research and development expenses consist primarily of compensation costs for engineering personnel, costs associated with various software projects, including testing, developing prototypes and related expenses. We have initiated the development of a mobile financial platform that will facilitate mobile transactions for payroll and bill payment through the phone.

Our engineering personnel are located in our offices in Canada, China and the Middle East. We believe the international structure of our engineering group 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.

We normally expense our development costs associated with advancing our e-Fresh™ software. However, we have capitalized our development costs associated with our MCP product as it meets the criteria detailed on page 7 under Critical Accounting Policies for Intangible Assets.

***Critical Accounting Policies and Estimates***

The following discussion and analysis is based upon our consolidated financial statements that have been prepared in conformity with Canadian generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the

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

We have identified some of our accounting policies that we consider critical to our operations and the understanding of our results of operations. This is neither a complete list of all our accounting policies, nor does it include all the details surrounding the accounting policies we have identified. There are other accounting policies that are significant to our company. For a more detailed discussion on the application of these and our other accounting policies, see note 2 to the consolidated financial statements for the fiscal year ended October 31, 2011.

*Revenue Recognition*

The Company's revenue is comprised of three sources: resale and distribution of prepaid 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 eVouchers and point of sale activated gift cards. 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. We generally record our network revenues from North America on a gross basis and revenues from Brazil on a net basis.

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.

*Stock-Based Compensation*

The Company has stock-based compensation plans which are described in note 11 to the consolidated audited financial statements.

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.

*Goodwill and intangible assets resulting from acquisitions*

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is recorded on a reporting unit basis and is not subject to amortization. The carrying value of goodwill is tested annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. Management must estimate the value of goodwill on an annual basis considering the various indicators of value and based on internal assumptions. If these factors change significantly, goodwill may be impaired in a future period. Goodwill would be reduced with an impairment provision if its carrying value exceeds its estimated fair value.

Intangible assets (acquired either individually or with a group of other assets) are recorded at assigned cost. Intangible assets related to acquisitions are recorded at their estimated fair value at the acquisition date. Intangible assets that have a fixed or determinate life are amortized as follows:

| | |
|---|---|
| Customer relationships | Straight line over 5 years |
| Domain names, patents and others | Straight line over 5 years |
| Intellectual property | Straight line over 3 years |
| Computer software | Declining balance @ 30% |

Intangible assets are tested for impairment when there are indicators of a decline in value. If such indicators exist, the Company determines whether the net carrying amount of the asset would be recoverable. The impairment loss, if any , is calculated as the amount by which the carrying amount of the assets exceeds the fair value of the asset.

*Development Costs (Intangible Assets)*

Development costs are capitalized and deferred when the Company can demonstrate:

- Technical feasibility of completing the development so that it will be available for use or sale
- Its intention to complete and its ability to use or sell the asset
- How the asset will generate future economic benefits
- The availability of resources to complete the asset

- The ability to reliably measure the expenditure during development

There is significant judgment in determing the technical feasibility of a project and the future economic benefits of the costs. Management makes a determination of this criteria on a project by project basis. We will continue to evaluate any deferred costs in future periods and significant changes in any of these criteria noted above may result in adjustments of the amounts capitalized.

Deferred development costs are amortized on a straight-line basis over 3 years representing the estimated average life cycle of related products.

The Company develops new electronic communications products for the telecommunication and financial markets.

***Non-GAAP Measures***

Adjusted EBITDA is not a calculation based on Canadian GAAP and should not be considered an alternative to Net Income in measuring the Company's performance, nor should it be used as an exclusive measure of cash flow.

EBITDA is a measure commonly reported and widely used by investors as an indicator of a company's operating performance and ability to incur and service debt, and as a valuation metric. While Adjusted EBITDA has been disclosed herein to permit a more complete comparative analysis of the Company's operating performance and debt servicing ability relative to other companies, investors are cautioned that Adjusted EBITDA as reported by the Company may not be comparable in all instances to EBITDA as reported by other companies.

Management defines Adjusted EBITDA as net income adjusted for, interest, taxes, depreciation expenses, amortization expenses, accretion and market to market expenses, foreign exchange differences and stock based compensation expenses.

Adjusted EBITDA can be calculated from the Company's consolidated statements of operations, comprehensive loss and accumulated deficit, as follows:

| | **Q4 2011** | **Q4 2010** | **2011** | **2010** |
|---|---|---|---|---|
| Net income (loss) | $ (1,145,975) | $ 39,926 | $ (4,355,556) | $ (327,787) |
| Add: | | | | |
| Interest | (43,785) | (521) | 189,604 | 3,095 |
| Accretion / mark to market loss on derivatives | 374,720 | | 600,172 | |
| Amortization | 121,614 | 55,843 | 364,360 | 344,216 |
| Loss (gain) on disposal of assets | 808 | | 9,556 | |
| Foreign exchange Difference | 89,456 | 16,556 | 96,029 | 7,724 |
| Income tax expense (recovery) | - | (64,892) | - | (64,892) |
| Stock based compensation | 34,948 | 48,938 | 176,442 | 83,217 |
| Adjusted EBITDA | $ (568,214) | 95,850 | $ (2,919,393) | $ 45,573 |

### *Changes in Accounting Policies*

There were no accounting policy changes during the year ended October 31, 2011.

### *Summary of Quarterly Results*

The following statement of operations data presents the consolidated statements of operations for the past eight quarters (in thousands of dollars except per share amounts).

| ***Consolidated Statement of Operations data*** | **Three Months Ended** | | **Three Months Ended** | |
|---|---|---|---|---|
| | **October 31** | **July 31** | **April 30** | **January 31** |
| | **2011** | **2011** | **2011** | **2011** |
| Revenues | $ 26,823 | $ 28,429 | $ 26,651 | $ 26,521 |
| Gross profit | 1,488 | 1,338 | 1,321 | 1,374 |
| Loss before income taxes | (1,146) | (1,390) | (1,375) | (443) |
| Net loss | $ (1,146) | $ (1,390) | $ (1,375) | $ (443) |
| Basic and diluted loss per common share | $(0.02) | $(0.03) | $(0.03) | $(0.01) |

| ***Consolidated Statement of Operations data*** | **Three Months Ended** | | **Three Months Ended** | |
|---|---|---|---|---|
| | **October 31** | **July 31** | **April 30** | **January 31** |
| | **2010** | **2010** | **2010** | **2010** |
| Revenues | $ 29,744 | $ 31,464 | $ 30,373 | $ 30,351 |
| Gross profit | 1,716 | 1,613 | 1,499 | 1,482 |
| Loss before income taxes | (24) | (122) | (139) | (106) |
| Net earnings (loss) | $ 40 | $ (122) | $ (139) | $ (106) |
| Basic and diluted earnings (loss) per common share | $0.00 | $(0.00) | $(0.00) | $(0.00) |

### *Selected Annual Information*

Selected annual financial information derived from the audited consolidated financial statements for the most recently completed financial years is set forth below:

For the years ended October 31 (in thousands except for per share amounts):

| | 2011 | 2010 (restated**) | 2009 (restated) ** |
|---|---|---|---|
| Total assets | 14,512 | 12,829 | 11,174 |
| Total long-term liabilities | 2,441 | 3 | 9 |
| Revenue | 108,424 | 121,932 | 126,080 |
| Net loss before income tax | (4,356) | (393) | (1,109) |
| Net loss after income tax | (4,356) | (328) | (1,109) |
| Basic loss per share | (0.09) | (0.01) | (0.02) |
| Diluted loss per share | (0.09) | (0.01) | (0.02) |

** Restated for to reflect the restatement of GST – see GST Restatement

***GST Restatement***

During the year, the Company received a reassessment for outstanding GST and interest related to the years 2007 to 2009. As this reassessment relates to prior periods, the Company has recorded this amount as a prior period adjustment by adjusting the opening deficit by $440,000 as at November 1, 2009 and adjusting the corresponding accounts payable and accounts receivable. Similarly, interest relating to the reassessment was recorded in the relevant fiscal periods.

***Off-Balance Sheet Arrangements***

VendTek does not have any off-balance sheet arrangements.

***Results of Operations***

*Comparison of year and quarter ended October 31, 2011 compared to the year and quarter ended October 31, 2010.*

The table below sets forth data from our statements of operations for the three months ended October 31, 2011 and 2010, and the years ended October 31, 2011 and 2010, expressed as a percentage of total revenue.

| | Three Months Ended October 31, | | Fiscal Year Ended October 31, | |
|---|---|---|---|---|
| | 2011 | 2010 | 2011 | 2010 |
| Prepaid revenue | 98.38% | 97.42% | 98.34% | 98.36% |
| Hardware revenue | 0.10% | 0.09% | 0.08% | 0.07% |
| Software revenue | 1.52% | 2.49% | 1.57% | 1.57% |
| Total revenue | 100.00% | 100.00% | 100.00% | 100.00% |
| Cost of products sold | 94.45% | 94.23% | 94.91% | 94.82% |
| Gross profit | 5.55% | 5.77% | 5.09% | 5.18% |
| General and administrative expense | 3.92% | 4.11% | 4.58% | 3.65% |
| Selling and marketing | 3.01% | 0.84% | 2.60% | 0.76% |
| Research and development | 0.87% | 0.64% | 0.77% | 0.65% |
| Restatement costs | 0.00% | 0.00% | 0.00% | 0.16% |
| Amortization | 0.45% | 0.19% | 0.34% | 0.28% |
| Other expenses | 1.57% | 0.08% | 0.82% | 0.00% |
| Loss before income taxes | (4.27)% | (0.09)% | (4.02)% | (0.32)% |
| Income taxes | 0.00% | (0.22)% | 0.00% | (0.05)% |
| Net loss | (4.27)% | 0.13% | (4.02)% | (0.27)% |

*Three Months Ended October 31, 2011 Compared to Three Months Ended October 31, 2010*

*Revenue*

Revenues for the quarter ended October 31, 2011, decreased $2.9 million to $26.8 million, or 9.8%, from $29.7 million for the corresponding period of 2010.

Our network revenue totalled $26.4 million for the quarter ended October 31, 2011, compared to $29 million for the same quarter in 2010. The $2.6 million decrease is consistent with the decline in prepaid subscribers as new entrants into the Canadian wireless market offered unlimited usage plans.

In the U.S., our virtual network revenues were $882,000 and $1.1 million in the fourth quarters of 2011 and 2010 respectively. This equates to a 19.5% decrease for the quarter ended October 31, 2011, compared to the corresponding period in 2010. The decrease in our virtual network revenue in the U.S. is due primarily to lower transactions processed through our network locations as some of the locations in our network experienced lower sales.

In Brazil, our virtual network revenues were $69,000 during the quarter ended October 31, 2011, and nil for the same period of 2010. We recognize our network revenues in Brazil on a net basis. This reflects the fact that we do not have inventory for our virtual prepaid mobile top-up products. If we recognized the revenue on a gross basis consistent with our practice in North America, the revenues recorded would have been $1.0 million for the quarter.

Hard card sales increased by $5,000 from $56,000 in the fourth quarter of 2010 to $61,000 in fourth quarter of 2011.

Our software and related service revenues decreased by $332,000, or 44.8%, to $409,000 for the fourth quarter of 2011 compared to $741,000 for the same period in 2010. We received software and service revenues from the U.A.E, China, Africa and the U.S. The decrease is mainly due to one-time license fees received in the fourth quarter of 2010 of $300,000 from our customer in China.

*Cost of Revenues*

Cost of revenues for the three months ended October 31, 2011 were $25.335 million, or 94.5% of revenues, compared to $28.028 million or 94.23% for the same period in 2010. The margin is indicative of the virtual prepaid telecommunications industry.

*General and Administrative*

General and administrative expenses were $1.1 million and $1.2 million for the three months ended October 31, 2011, and 2010 respectively. As a percentage of revenue, general and administrative expenses were 3.9% and 4.1% for the three months ended October 31, 2011 and 2010 respectively.

Included in general and administrative expenses were non-cash stock-based compensation expense of $35,000 and $49,000 during the fourth quarter of 2011 and 2010.

*Sales and Marketing*

Our sales and marketing expenses were $807,000 and $250,000 for the fourth quarter of 2011 and 2010. As a percentage of revenue, sales and marketing expenses were 3.0% and 0.8% of revenues during the fourth quarter of 2011 and 2010 respectively. We incurred approximately $634,000 in sales and marketing expenses, which were related to our new operations in Brazil. We added additional sales people to our organization in Brazil.

*Research and Development*

Product development costs for the three months ended October 31, 2011, and 2010 were $232,000 and $190,000. As a percentage of revenue, research and development costs remained were 0.87% and 0.64% during the fourth quarters of 2011 and 2010 respectively. The increase in development costs were due to increased compensation costs from new hires.

*Adjusted EBITDA*

Our adjusted EBITDA decreased to a deficit of $568,000 from earnings of $95,000 from the three months ended October 31, 2011, compared to the same period for 2010. This reduction was mainly the result of our investment in our Brazil operations and the one-time license fees earned in 2010 from our customer in China.

*Amortization*

Amortization expenses were $122,000 and $56,000 for the fourth quarter of 2011 and 2010 respectively. The increase in amortization expense is primarily due to the increase investment in equipment.

*Accretion on convertible debentures and Mark to Market charge for embedded derivative*

These expenses are non-cash costs expected to be incurred over the term of the convertible debentures. Accretion expenses were $58,000 and nil for the fourth quarter of 2011 and 2010. Mark to market charges on embedded derivatives were $317,000 and nil for the fourth quarter of 2011 and 2010. These expenses are the result of the issuance of the convertible debentures during the year.

*Interest on long term debt*

We earned interest of $44,000 in the fourth quarter of 2011 compared to interest expense of $1,000 during the same period in 2010. The main reason for interest income was a reversal of interest expense estimate during the third quarter of 2011 for our GST reassessment. Without the reversal of the interest estimate, our interest expense was $46,000 in the fourth quarter of 2011. The interest was the result of the convertible debenture issued during the year.

*Net Loss*

The consolidated net loss was $1.1 million for the fourth quarter ended October 31, 2011, compared with net income of $40,000 for fourth quarter of 2010.

This net loss increase is due primarily to the increase in selling and marketing costs relating to our investment in our Brazil operations, the non cash accretion and the mark to market charges on the convertible debentures and increase in foreign exchange loss.

*Year Ended October 31, 2011 Compared to the Year Ended October 31, 2010*

*Revenues*

Revenues for the year ended October 31, 2011 decreased $13.5 million to $108.4 million, or 11.1%, from $121.9 million for the corresponding period in 2010.

Our network revenues decreased $13.3 million, or 11.1%, for the year ended October 31, 2011, compared to the same period of 2010. This $13.3 million decrease in network revenue is due the decrease in prepaid users in Canada.

In the U.S., our virtual network revenues remained consistent at $4.1 million for both years ended October 31, 2011 and 2010 respectively.

In Brazil, despite the fact that we received certification from the mobile operators in June, our virtual network revenues were $97,000 during the year ended October 31, 2011, and nil for the same period of 2010. We recognize our network revenues in Brazil on a net basis. This reflects the fact that we do not have inventory for our virtual prepaid mobile top-up products. If we recognized the revenue on a gross basis consistent with our practice in North America, the revenues recorded would have been $1.3 million

Included in our network revenues are hard card sales. Our hard card sales of $145,000 for the year ended October 31, 2011 decreased by $74,000 from $219,000 compared to the year ended October 31, 2010. This decrease is an ongoing result of the decision by many telephone companies in Canada to eliminate their hard card products.

Our software and related service revenue decreased by $209,000, or 10.9%, to $1.7 million for the twelve months of fiscal 2011 from $1.9 million during the same period in 2010. We received software and service revenues from the U.A.E, China, Africa, and the U.S. The decrease is due to one-time license fees received in 2010 of $300,000 from our customer in China. Without this one-time fee, our license revenues for 2011 would have increased about $91,000 (or 5%) compared to 2010.

Our hardware revenues for year ended October 31, 2011 were $90,000 compared to $87,000 in 2010.

*Cost of Revenues and Gross Margin*

Cost of revenues for the years ended October 31, 2011 and 2010 were $102.9 million and $115.6 million respectively. Our gross margin percent was 5.2% for both years.

*General and Administrative*

Our general and administrative expense increased to $4.96 million in 2011 from $4.44 million in 2010. As a percentage of revenue, general and administrative expenses were 4.6% and 3.7% for the years ended October 31, 2011 and 2010 respectively. General and administrative expense increased mainly due to increases in non-cash stock-based compensation expense, increase in employee compensation and an increase in bad debts provisions.

Included in general and administrative expenses for the years ended October 31, 2011 and 2010 were $176,000 and $83,000, respectively, of non-cash stock-based compensation expense.

*Sales and Marketing*

Our sales and marketing expenses increased $1.9 million or 205.2%, to $2.8 million in the year ended October 31, 2011, as compared to $926,000 for 2010. As a percentage of revenues, our sales and marketing expenses were 2.6% and 0.8% respectively. We incurred approximately $2.2 million in sales and marketing expenses, which were related to our new operations in Brazil. These expenses included compensation costs for our staff, facilities expenses and consultant expenses.

*Research and Development*

Our product development costs for the year ended October 31, 2011, were $838,000, or approximately 0.77% of revenues and relatively consistent with the prior year's cost of $788,000 (or 0.65% of revenues) for 2010. The slight increase was due to additional compensation expenses as we hired additional engineering staff.

*Adjusted EBITDA*

Our adjusted EBITDA decreased to a deficit of $2.9 million from a positive EBITDA of $46,000 from the year ended October 31, 2011 compared to the same period for 2010. The reduction was mainly the result of our investment in our Brazil operations.

*Restatement Costs*

Restatement costs consist of accounting, legal and consulting costs incurred. We did not incur any restatement costs for the year ended October 31, 2011, compared to $190,000 in the same period of 2010. These costs related to the restatement of our 2006 and 2007 annual financial statements and the quarters ended January 31, April 30 and July 31, 2009.

*Amortization*

Amortization expenses increased to $364,000 in 2011 from $344,000 in 2010. The increase in amortization expenses is primarily due to the increased investment in equipment.

*Foreign Exchange Gain/Loss*

Foreign exchange loss for 2011 was $96,000 as compared to $7,000 in 2010. Foreign exchange gains or losses arise when foreign currency denominated monetary items are re-valued to the exchange rates in effect at the end of the period. The gain or loss recognized in any given period is affected by changes in foreign exchange rates as well as the composition of our foreign currency denominated monetary assets and liabilities. We have foreign currency denominated assets and liabilities denominated in U.S. dollars, Chinese renminbi, and Brazilian reais.

*Accretion on convertible debentures and Mark to Market charge for embedded derivative*

These expenses are non-cash costs expected to be incurred over the term of the convertible debentures. Accretion expenses were $160,000 and nil for the years ended October 31, 2011 and 2010 respectively. Mark to market charges on embedded derivatives were $441,000 and nil for the years ended October 31, 2011 and 2010 respectively.

*Interest on long term debt*

Interest expense was $190,000 and $3,000 for the years ended October 31, 2011 and 2010 respectively. The increase in interest expense is due to the issuance of convertible debentures during the year as well as $60,000 of interest attributed to a GST audit.

*Provision for Income Taxes*

Our provision for income tax expense for fiscal 2011 was nil while our provision for income tax recovery for fiscal 2010 was $65,000 for the fourth quarter of 2010. The 2010 recovery was all related to current tax refunds received during the fourth quarter of 2010.

No future tax recovery was recognized as the criteria for recognition has not been met.

*Net Income*

The consolidated net loss was $4.4 million for the year ended October 31, 2011, compared with net loss of $328,000 for 2010.

This increase of $4.0 million in net loss was primarily the result of our investment in our Brazil operations, interest and the non-cash accretion on convertible debentures issued this year.

***Liquidity and Capital Resources***

As at October 31, 2011 and 2010 our cash balance was $3.5 million compared to $4.8 million. 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 pay suppliers approximately 17 days following the purchase of inventory. Specifically, we normally collect our cash every Wednesday. If collections from retailers or suppliers happen near a period end, our cash position will be affected accordingly.

*Cash Flows Used in Operating Activities*

Net cash used by operating activities was $5.6 million in 2011 compared to $2.1 million provided by operating activities in 2010. Cash was reduced by the $1.2 million increase in accounts receivable, $329,000 increase in deposits and $38,000 increase in prepaid expenses. Cash was also reduced due to a decrease in accounts payable of $1.1 million. Cash was increased by the $255,000 increase in deferred revenue and $60,000 decrease in inventories.

*Cash Flows from Financing Activities*

Financing activities provided cash of $5.8 million and $307,000 in 2011 and 2010. Cash was provided primarily from $2.8 million from issue of convertible debentures and $2.9 million from the issue of shares. We also received $76,000 from the exercise of stock options and repaid $9,000 of capital lease obligations.

*Cash Flows from Investing Activities*

Investing activities used cash of $1.4 million in 2011 and $241,000 in 2010. The funds were used for payments to develop the MCP and equipment purchases. Also $378,000 of cash was used to secure credit with our suppliers in Brazil.

*Financial Condition*

We believe that we have sufficient cash and working capital to meet our obligations as they come due in 2012. We plan capital expenditure for fiscal 2012 in line with prior years for our existing operations. For our new operations in Brazil, we expect to incur operating and capital expenses as our operations expand.

We expect to continue using funds generated from our existing operations to further finance the expansion of our business. Working capital is managed by rate of inventory turnover, collection terms with customers and terms granted by suppliers. Our cash flow is dependant on our ability to continue to manage the business cycle. Limited credit facilities from vendors may limit our working capital and cash flows to expand the business. As this business expands, we anticipate the need to purchase additional inventory and POS terminals. A risk to our liquidity is that customers do not pay in a timely manner creating a negative cash flow situation. Please refer to our risks relating to our business for more information.

Our cash flow from operations is impacted by our margin on sales. Increased pricing competition may reduce margins and our ability to negotiate favourable supply contracts will impact our margin, net income and operating cash flow. Please refer to our risks relating to our business for more information.

Historically, the Company has financed its operations through the sale of equity as well as through long-term debt, lease financing, an operating line of credit with a chartered Canadian bank, term loans

from the Business Development Bank of Canada and related party debt. VendTek's operations, development and expansion are financed from the cash flow generated from operating activities, including supplier credit.

There are no legal or practical restrictions on the ability of subsidiaries to transfer funds to the company nor are there defaults or arrears or anticipated defaults or arrears on lease payments, interest or principle payments on debt. We have no minimum purchase or supply agreements in place.

The Company's current minimum annual operating lease contractual obligations are as follows for the years ending October 31:

| | |
|---|---|
| 2012 | $ 143,134 |
| 2013 | 59,862 |
| | $ 202,996 |

**Internal Controls**

Disclosure controls and procedures (DC&P) have been designed to provide reasonable assurance that information required to be disclosed is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosure. Internal Controls over Financial Reporting (ICFR) have been designed to provide reasonable assurance regarding the reliability of financial reporting.

The Chief Executive Officer and Chief Financial Officer are responsible for overseeing the establishment and maintenance of disclosure controls and procedures as well as internal controls over financial reporting. We are not required by Canadian securities regulations to evaluate the effectiveness of our DC&P and ICFR.

Although we have not conducted a formal evaluation and testing of our controls, we continue to evaluate our DC&P and ICFR by looking at the size, nature and state of development of our business and thus used a top down risk-based approach to focus evaluation on areas that were deemed to provide the greatest risk to a material misstatement. Our evaluation also took into account our corporate disclosure procedures and the functioning of our executive officers, management, Board of Directors, and Audit Committee.

We believe that there are no material weaknesses over our DCP and ICFR.

Our officers and management believe that the lack of formal evaluation and testing has been mitigated by the active involvement of senior management and the Board of Directors in all of the affairs of the Company and the thorough review of our financial statements by senior management.

Going forward, we are committed to continually improving our processes and internal controls.

***Convergence with International Financial Reporting Standards***

The Canadian Accounting Standards Board has announced that Canadian publicly accountable enterprises will be required to adopt International Financial Reporting Standards ("IFRS") effective for fiscal years beginning on or after January 1, 2011. Accordingly, the Company will adopt IFRS as the basis of preparation for its interim and annual financial statements for periods beginning on November 1, 2011 with a transition date of November 1, 2010 to allow for comparative financial information.

The Company's IFRS transition project consists of three phases:

Preliminary Diagnostic Review
The Company, with the assistance of its external consultant, has completed the preliminary diagnostic review, which involves identification and a high level review of the major differences between current GAAP and IFRS. The major differences identified were as follows:

Functional currency – Under both IFRS and Canadian GAAP, there are various indicators to be considered in determining the appropriate functional currency of an entity. Under IFRS, when the indicators are mixed and the functional currency is not obvious, priority should be given to certain of the indicators. Under Canadian GAAP, there is no hierarchy of indicators under which certain indicators are given priority and the determination of functional currency requires judgment. IFRSs do not distinguish different types of foreign operations. However, the relationship between the entity and its foreign operation is a factor in determining the functional currency of the foreign operation, which is assessed separately from that of the parent. IFRS prescribes a common method of translating the financial statements of foreign operations for the purpose of consolidation. Under Canadian GAAP, there are two types of foreign operations and two different translation methods: integrated (which have the same functional currency as the entity) and self-sustaining (which have a functional currency different from the entity). The Company has completed its analysis and concluded that the functional currency of VST is the Chinese yuan and the functional currency of NPS is the Brazilian real.

Impairment of long-lived assets and goodwill – IFRS requires that assets be tested separately for impairment, and where the recoverable amount cannot be estimated for individual assets, it should be estimated as part of a cash-generating unit. Under IFRS, goodwill is always tested for impairment at the level of a cash-generating unit or groups of cash-generating units. Under Canadian GAAP, assets are tested for impairment in asset groups and goodwill is tested for impairment at the reporting unit level. IFRS requires the uses of a one-step approach for testing and measuring impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use. Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists, and then measuring impairment by comparing asset carrying values to their fair value. The Company has performed an analysis of its cash-generating units and will test its long-lived assets and goodwill for impairment on the transition date to comply with these requirements, and then annually thereafter.

Provisions – IFRS, IAS 37, “Provisions, Contingent Liabilities and Contingent Assets”, requires a provision to be recognized when i) there is a present obligation as a result of a past transaction or event; ii) it is probable that an outflow of resources will be required to settle the obligation; and iii) a reliable estimate can be made of the obligation. “Probable” in this context means more likely than not. Under existing GAAP, the criterion for recognition in the financial statements is “likely”, which is a higher threshold than “probable”. Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under existing GAAP.

Share-based payments - Under IFRS, forfeitures must be estimated upfront in the valuation of stock options. Currently, the Company accounts for the forfeitures as they occur. Under IFRS, when a share-based payment award vests in instalments over the vesting period (graded vesting), each instalment is accounted for as a separate arrangement; the Company’s current practice is to treat the award as a pool and determine fair value using the average life and recognize compensation on a straight-line basis. The Company is currently reviewing its share-based payment models and will quantify the impact of accounting for its share-based payments under IFRS as at the transition date and in the comparative period.

*Detailed Assessment*
A detailed assessment is currently in progress and will identify the impact on financial reporting, information technology and systems, financial reporting expertise, accounting policies, internal controls over financial reporting and disclosure controls and procedures, and developing systems and accounting policies to address identified issues. This phase will also require a detailed analysis of the

differences between IFRS and GAAP. Significant increases in disclosure are anticipated and the Company is identifying and assessing these additional disclosure requirements. The Company does not expect the adoption of IFRS to have significant impact on operations.

*Policy and Design Implementation*
This phase will result in the selection of policies together with changes to information systems to facilitate collection of the necessary financial information to compile IFRS financial statements for 2012 interim and annual financial statements. At this time, the Company can not quantify the impact of IFRS on its consolidated financial statements. As the IFRS transition project progresses, the Company will continue to report on the status of the plan including further information on accounting policy changes and their impacts on the financial statements. The transition to IFRS is not expected to have an impact on the Company's operating results or cash flows.

### *Financial Instruments*

The Company's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, capital lease obligations and convertible debentures. 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, accrued liabilities and capital lease obligations are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Convertible debentures are also classified as other financial liabilities and are held at amortized cost, which upon their initial measurement is equal to the fair market value of discounted cash flows net of the fair market value of their embedded derivative. Interest and accretion expense is recorded in net income, as applicable. Interest expense is recorded in net income, as applicable.

It is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values due to their short-term nature. The Company does not have derivatives.

### *Share Capital*

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

During 2011, there were 192,858 shares issued from the exercise of options and 5,028,333 shares issued from equity financing. This resulted in 52,545,652 shares outstanding at October 31, 2011. As at the date of this MD&A, there are 52,545,652 shares and 4,682,000 stock options outstanding.

### *Summary of Options Granted*

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 |
|---|---|---|
| Outstanding, October 31, 2009 | 5,963,000 | 0.55 |
| Granted | 995,000 | 0.44 |
| Exercised | (1,604,000) | 0.20 |
| Cancelled or forfeited | (442,000) | 0.83 |
| Outstanding, October 31, 2010 | 4,912,000 | 0.61 |
| Granted | 325,000 | 0.52 |
| Exercised | (192,858) | 0.40 |
| Cancelled or forfeited | (312,142) | 0.46 |
| Outstanding, October 31, 2011 | 4,732,000 | $ 0.62 |

***Summary of Warrants Outstanding***

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

| | Number of shares | Weighted average exercise price |
|---|---|---|
| Outstanding, October 31, 2010 | 0 | 0.00 |
| Issued | 4,039,167 | 0.84 |
| Exercised | 0 | 0.00 |
| Outstanding, October 31, 2011 | 4,039,167 | $ 0.84 |

***Related Party Transactions***

The Company has a lease commitment and paid rent of $49,788 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 expired 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. As of November 1, 2011, the Company extended the lease, which expires October 31, 2013 with the same terms.

During the year ended October 31, 2011, the Company recognized $1,362,842 (USD $1,380,625) of revenue from a shareholder of the Company and its affiliate. As at October 31, 2011, $267,258 (USD $268,143) of this amount is recorded within accounts receivable. The shareholder also participated in the financings completed by the Company (notes 10 and 11). 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.

***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.

We have five main priorities for 2012:

1. Successful launch of our operations in Brazil.

2. Continue to increase international license revenues

3. Increase profitability of our North American operations.

4. Continue to build out our e-Fresh™ platform.

5. Strategic acquisitions.

*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 Now Prepay network in North America, Brazil 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.

In Brazil, we expect that in 2012, we will continue to expand our operations in the country. At year-end, our network of about 1,400 locations was comprised primarily of independent retailers in Sao Paulo State. During the year, we expect to expand our sales efforts to target independent retailers in other states as well.

We are also targeting medium sized retailers in the country. Many medium sized retailers do not require a POS terminal. Instead, we can utilize a host-to-host connect to the retailers cash register system. The host-to-host connect saves us the capital cost of the POS machine.

Additionally, we have partnered with stored value processors to offer prepaid mobile recharge to their retail network. During the year, we announced the signing of a stored value processor with a network of approximately 3,000 distribution points. We expect to add similar partnerships and launch with the first stored value processor in 2012.

In 2011, we announced an agreement with Banco Santandar S.A. to provide bill payment services to our network. We expect to launch this service in 2012. We expect that we will also add additional products throughout the year.

Our revenue growth in Brazil will be dependent on the number of retail locations added and the number of transactions per locations during the year. We expect the POS terminal growth and number of transactions to grow as the year progresses and the number of products available to be processed increases.

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 and other parts of Asia will grow in 2011 and contribute increasing license fees as their operations expand. We will continue to expand our international network by seeking additional license opportunities.

We expect our MCP platform development to be completed and start to generate license revenues in 2012. The initial phase of the platform is substantially complete. We should begin to receive license revenues from our customer in Afghanistan in the second quarter of 2012. The subsequent phase should be completed in the third quarter of 2012. Our capital outlay for this product is being shared equally with our customer in Afghanistan. We are pursuing additional sales opportunities with other mobile network operators, financial institutions and retailers for the MCP.

*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 2011, while 1.6% of our revenues were derived from international license revenues, 29.3% of our gross profits was from international license revenues.

In Canada, we expect to see continued margin pressure as the prepaid telecommunication market matures. 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 160,000 transactions a day.

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. For our Brazil operations, we expect to maintain our existing operating expenses as we grow our network.

### *Risks Related to our Business*

This document contains forward-looking statements, including statements regarding the future success of our business and technology strategies and future market opportunities. These statements are not guarantees of future results. These statements involve known and unknown risks and uncertainties that may cause actual results to differ materially from what is implied by these forward-looking statements. These risks include risks related to revenue growth, operating results, the economic condition of the industries we serve, product development, and litigation as well as other factors described below and elsewhere in this report. Please note that forward-looking statements represent our estimates on the date they were made and undue reliance should not be placed on these statements.

The following internal and external risks may affect VendTek's operations. We continually monitor and evaluate these risk factors and take action to minimize them; however, as many are outside of our control, it is impossible to completely mitigate these risks.

Note: This section is forward-looking by nature. It is qualified entirely by the Forward-Looking Statements disclaimer at the end of this MD&A. It is also qualified by the principal risks that could affect our business.

*Market Demand for Products and Services*

We have experienced growing revenue from our products in the past. Our revenues are based on processing fees and commissions from mobile and other telecommunication operators and distributors of prepaid wireless products. Growth in our prepaid business in any given market is driven by a number of factors, including the extent to which conversion from scratch cards to electronic distribution solutions is occurring or has been completed, the overall pace of growth in the prepaid mobile phone market, our market share of the retail distribution capacity and the level of commission that is paid to the various intermediaries in the prepaid mobile airtime distribution chain.

However, we cannot be certain that product revenue will continue to grow or grow at the same pace as past results. In mature markets, such as the Canada and the U.S., the conversion from scratch cards to electronic forms of distribution is either complete or nearing completion. Therefore, these factors will cease to provide the organic increases in the number of transactions per terminal that we have experienced historically. Also, competition among prepaid distributors results in retailer "churn" and the reduction of commissions paid by mobile operators, although a portion of such reductions can be passed along to retailers. If we cannot continue to increase our transaction levels and per-transaction fees and commissions decline, the combined impact of these factors could adversely impact our financial results.

There is no guarantee that our products will remain competitive, nor that they will respond to market demands, developments or new industry standards. If we are unable to identify a shift in market demand quickly enough, we may not be able to develop products to meet those new demands, or bring them to market in a timely manner. This risk is mitigated through our ongoing commitment to research and development and to constantly improving the products based on industry feedback.

*Inventory Risks*

We contract with telecommunications companies to purchase PINS and are responsible for payment regardless of whether we sell the products. If we do not sell a significant portion of the inventory purchased on a timely basis, we may experience a working capital deficiency. We mitigate this risk by managing our inventory purchasing and inventory turnover very carefully. This results in very frequent purchases and sales. We also manage our working capital risk related to inventory by collecting the proceeds from the sale prior to the required payment to our suppliers.

*Credit Risks*

We contract with retailers that accept payment on our behalf, which we then transfer to an operating account for payment to mobile phone operators. In the event a retailer does not transfer to us payments that it receives for mobile airtime, we are responsible to the mobile phone operator for the cost of the airtime credited to the customer's mobile phone. Although each individual transaction may be immaterial, we can provide no assurance that retailer fraud will not increase in the future or that any proceeds we receive will be adequate to cover losses resulting from retailer fraud, which could have a material adverse effect on our business, financial condition and results of operations. Typically, our exposure on a per retailer basis is limited to $4,000 maximum from time to time.

*State of the Economy*

Operating results may vary significantly based on the impact of changes in industry cycles and global economic conditions on our customers. VendTek's diversification in terms of geography helps to mitigate this risk.

*Research and Development*

If we do not respond effectively and on a timely basis to rapid technological change, our products and services may become obsolete. This could result in customer loss and reduced software support revenue. The markets for our products are characterized by:

- rapid and significant technological change
- frequent new product introductions and enhancements
- changing customer demands
- evolving industry standards

*Exchange Rates*

We operate internationally; accordingly, our contracts and costs are in various local currencies, including United States dollars, Chinese remnimbi, Brazilian real and U.A.E. dhirams. The conversion of our Chinese and Brazilian subsidiaries' operating results into Canadian dollars for financial statement presentation may impact quarterly or annual results and comparison between prior periods, particularly when exchange rates fluctuate rapidly.

As VendTek expands internationally, the growing diversity of the revenue currencies should serve to offset currency fluctuations.

*Ability to Retain and Attract Qualified Employees and Contain Payroll Expenses*

Executive management, senior technical personnel and other key personnel are essential to our business. The loss of the services of any of these persons could have a material adverse effect on the business. As a growing company, our ability to develop, market and support our products could be harmed if VendTek is not able to recruit and retain qualified personnel. In addition, payroll is a significant component of costs for our research and development groups. Local labour market conditions can impact labour expenses.

To mitigate these risks, VendTek offers competitive compensation packages, unique and challenging career opportunities. Our corporate culture supports diversity, creativity and equality, and values integrity and innovation. In addition to providing a challenging and rewarding work environment, VendTek's social activities and corporate culture foster creativity and teamwork.

*Additional Tax Liabilities*

As a multinational corporation, we are subject to income taxes and other taxes in Canada and in various foreign jurisdictions. Significant judgment is required when determining our worldwide provision for income taxes and other tax liabilities. In addition, the tax on many intercompany transactions is uncertain.

Although we believe that our tax estimates are reasonable, there is no assurance that the final amounts will not be different from the provisions and accruals presented on our financial statements.

We use external subject matter experts to advise on international tax and transfer pricing issues.

*Legal Claims*

Possible intellectual property claims and other possible claims against the Company could be time consuming and costly to defend. If we are unsuccessful at defending against such claims, our ability to use intellectual property in the future could be limited or we may have to pay damages. VendTek has established policies that require all staff to comply with intellectual property laws.

Our agreements with customers and partners typically contain provisions designed to limit exposure to potential liability claims. In our agreements for the provision of services, we also try to negotiate limitations on liability. Despite this, it is possible that such provisions may not be effective as a result of existing or future laws or unfavourable judicial decisions. To date, we have not received any product liability claims or claims regarding services. A successful liability claim could result in significant monetary liability and could seriously disrupt our business. We seek to minimize the risk of liability claims through a thorough quality assurance process, continual development of our products and staff training. In addition, we maintain certain levels of insurance to mitigate risk related to project execution legal claims.

*Intellectual and Intangible Properties*

We rely on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect our proprietary rights. Intellectual property is a key component of the Company's business and any diminution in value or loss of intellectual property rights may have a material impact on the Company and its results of operation.

We provide software products to customers under nonexclusive license and distribution agreements. In order to protect our intellectual property rights, we do not sell or transfer title to our products to our customers.

Instead, under our standard form license agreement, licensed software may be used solely for the customer's internal operations at sites specified in the license contract. However, this affords only limited protection. As our industry is subject to rapid technological change, we believe that factors such as new product development, product enhancement, name and brand recognition, and customer service and support are important in establishing and maintaining a technological advantage.

*International Operations*

Business may suffer if there is a failure to address the challenges associated with international operations.

Approximately 31.5% of our gross margin was related to customers outside of Canada in fiscal 2011. It is expected that revenues from customers outside of Canada will continue to account for a significant portion of total revenues for the foreseeable future. Operations outside of Canada are subject to additional risks, including:

- unexpected changes in regulatory requirements, exchange rates, tariffs and other barriers
- political and economic instability
- difficulties in staffing and managing foreign subsidiary operations
- potentially adverse tax consequences

To mitigate these risks, VendTek researches the business and economic environment of a country before beginning business in the country. In countries with which VendTek is unfamiliar, an agent or partner familiar with the region will act on our behalf through the tender and negotiation process.

*Delay or Failure to Successfully Expand our Operations in Brazil*

While we are optimistic about the prospects for our new Brazilian operations, there is no certainty that we will generate profits. There is also no certainty that the amount and timeliness of these profits. Delays and competition in Brazil may result in a significant negative impact to our cash flows.

We are mitigating this risk by limiting our commitments and investments in Brazil until such time that we have more visibility to the cash flows.

*Delay or Failure to Successfully Develop and Deploy the MCP*

We have made significant progress in the development of the MCP. However, costs to complete and deploy the platform may exceed our expectations. Delays may result in a significant negative impact to our cash flows.

*Availability of Working Capital*

We may require additional funds through public or private financing, strategic relationships or other arrangements to meet future growth objectives. There can be no assurance that we will be able to obtain additional funding on favourable terms, if at all. If VendTek cannot raise funds on acceptable terms, if and when needed, we may not be able to develop or enhance products and services, expand the business, acquire complementary businesses or technologies, respond to competitive pressures or unanticipated requirements, or take advantage of future opportunities, which could have a material adverse effect on our business. VendTek is not cash flow positive and at October 31, 2011, had cash and equivalents of $3.529 million which, coupled with our existing line of credit of $0.5 million, we believe is sufficient to meet our growth objectives.

*Evolving financial reporting standards, regulation of corporate governance and public disclosure*

Changing financial reporting standards, corporate governance laws and regulations, including National Instrument 52-109, and the changeover to International Financial Reporting Standards may create challenges for VendTek.

The application of these new securities laws and financial reporting standards will evolve over time and may result in higher costs and periods of uncertainty regarding compliance matters and director and officers' liability.

We employ financial professionals with accounting designations in key roles and invest in training and professional development to ensure that our people are current on standards and best practices for financial reporting. When necessary, we also use external subject matter experts in areas where our internal resources lack expertise.

*The growth and profitability of our prepaid business is dependent on certain factors that vary from market to market.*

***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 above. 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 January 26 2012. 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.

## VendTek Systems Inc.

**Head Office**

507 – 1952 Kingsway Avenue, Port Coquitlam
British Columbia, Canada V3C 1S5
Tel: +1 604 944 9330
Fax: +1 604 944 0812

**www.vendteksys.com**

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