

Consolidated Financial Statements of

VENDTEK SYSTEMS INC.

Years ended October 31, 2011 and 2010



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of VendTek Systems Inc.

We have audited the accompanying consolidated financial statements of VendTek Systems Inc., which comprise the consolidated balance sheets as at October 31, 2011 and October 31, 2010, the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of VendTek Systems Inc. as at October 31, 2011 and October 31, 2010, and its consolidated results of operations and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

January 25, 2012
Vancouver, Canada

VENDTEK SYSTEMS INC.

Consolidated Balance Sheets

October 31, 2011 and 2010

	2011	2010 (Restated - note 8)
Assets		
Current assets:		
Cash and cash equivalents	\$ 3,529,284	\$ 4,832,659
Restricted cash (note 4)	378,396	-
Accounts receivable	5,309,941	4,132,963
Inventories (note 5)	1,932,905	1,993,818
Deposits	405,718	77,048
Prepaid expenses	102,207	64,038
	<u>11,658,451</u>	<u>11,100,526</u>
Equipment (note 6)	1,167,981	554,768
Intangible assets (note 7)	777,883	266,496
Goodwill	907,342	907,342
	<u>\$ 14,511,657</u>	<u>\$ 12,829,132</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities	\$ 9,015,891	\$ 10,204,295
Current portion capital lease obligations (note 9)	125,081	7,587
Deferred revenue	306,989	52,030
	<u>9,447,961</u>	<u>10,263,912</u>
Long term portion capital lease obligations (note 9)	307,265	-
Convertible debentures (note 10)	2,133,301	-
Shareholders' equity:		
Share capital (note 11)	11,693,629	9,053,612
Contributed surplus (note 11)	3,788,504	2,015,055
Deficit	(12,859,003)	(8,503,447)
	<u>2,623,130</u>	<u>2,565,220</u>
Commitments (note 13)		
	<u>\$ 14,511,657</u>	<u>\$ 12,829,132</u>

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

“Signed” – Martin Parent

Director

“Signed” – Garth Albright

Director

VENDTEK SYSTEMS INC.

Consolidated Statements of Operations, Comprehensive Loss and Deficit

Years ended October 31, 2011 and 2010

	2011	2010
Revenue:		
Network revenues	\$ 106,627,563	\$ 119,929,559
Hardware and equipment	90,081	86,757
Software license and services	1,706,413	1,915,560
	<u>108,424,057</u>	<u>121,931,876</u>
Cost of revenue:		
Cost of network revenues	102,784,850	115,563,692
Hardware and equipment	36,050	7,667
Software license and services	81,856	50,430
	<u>102,902,756</u>	<u>115,621,789</u>
	5,521,301	6,310,087
Operating expenses:		
General and administrative	4,960,619	4,443,784
Selling and marketing	2,818,909	925,807
Research and development	837,608	788,273
Restatement costs (note 18)	-	189,867
Accretion of convertible debentures	159,585	-
Mark to market loss on derivatives	440,587	-
Amortization	364,360	344,216
Interest expense	189,604	3,095
Loss (gain) on disposal of assets	9,556	(842)
Foreign exchange loss (gain)	96,029	6,882
	<u>9,876,857</u>	<u>6,702,766</u>
Loss before income taxes	(4,355,556)	(392,679)
Income tax recovery (note 8):		
Current	-	(64,892)
Net loss and comprehensive loss	(4,355,556)	(327,787)
Deficit, beginning of year	(8,503,447)	(7,735,660)
Adjustment to opening deficit (note 8)	-	(440,000)
Deficit, end of year	<u>\$(12,859,003)</u>	<u>\$ (8,503,447)</u>
Net loss per common share (note 14):		
Basic and diluted	\$ (0.09)	\$ (0.01)
Weighted average shares outstanding:		
Basic and diluted	48,751,587	46,326,998

See accompanying notes to the consolidated financial statements.

VENDTEK SYSTEMS INC.

Consolidated Statements of Cash Flows

Years ended October 31, 2011 and 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Net loss	\$ (4,355,556)	\$ (327,787)
Items not involving cash:		
Accretion on convertible debentures (note 10)	159,585	-
Mark to market loss on derivatives (note 10)	440,587	-
Amortization	364,360	344,216
Loss on disposal of assets	9,556	(842)
Stock-based compensation expense	176,442	83,217
Changes in non-cash operating working capital (note 17(a))	(2,416,349)	1,992,318
	<u>(5,621,375)</u>	<u>2,091,122</u>
Financing:		
Proceeds on issue of convertible debentures and warrants	2,786,912	-
Proceeds on issue of shares and warrants	2,906,813	-
Proceeds from options exercised	76,428	320,800
Repayment of capital lease obligations	(9,192)	(14,061)
	<u>5,760,961</u>	<u>306,739</u>
Investments:		
Increase in restricted cash	(378,396)	-
Purchases of equipment	(416,256)	(186,838)
Proceeds on disposition of equipment	-	22,475
Payments to develop intangible assets	(648,309)	(76,997)
	<u>(1,442,961)</u>	<u>(241,360)</u>
Increase (decrease) in cash and cash equivalents	(1,303,374)	2,156,501
Cash and cash equivalents, beginning of year	4,832,659	2,676,158
Cash and cash equivalents, end of year	<u>\$ 3,529,284</u>	<u>\$ 4,832,659</u>

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

See accompanying notes to the consolidated financial statements.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

1. Nature of operations:

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

VendTek's business focuses primarily on the distribution of prepaid telecom and financial services. The Company has developed its own electronic distribution network across Canada, the United States, and Brazil. The Company also does business under the name Now Prepay. The Company distributes cellular and long-distance products through its network and generates revenues by selling these products to its customers using its proprietary e-Fresh™ software. The Company also licenses its software to customers internationally, including the UAE, China, and Africa.

2. Significant accounting policies:

These consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and include the following significant accounting policies:

(a) Basis of consolidation and presentation:

The consolidated financial statements include the accounts of VendTek Systems Inc. and its wholly owned Canadian subsidiaries: VendTek Industries Inc., VendTek Systems Technologies (Beijing) Co., Ltd., VendTek Systems Asia Pacific (Singapore) Pte. Ltd., Gulf Payment Networks and Now Prepay Servicos de Informatica Ltda.

(b) Use of estimates:

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and related notes to the financial statements. Significant financial statement items which involve the use of estimates include the determination of the fair value of stock-based transactions and financial instruments, tax provisions, accounts receivable valuation, inventory valuation, valuation of goodwill and intangible assets and the useful lives of equipment and intangible assets. Actual results could differ from those estimates.

(c) Inventories:

Inventories are carried at the lower of actual purchase cost or net realizable value.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

2. Significant accounting policies (continued):

(d) Equipment:

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

Asset	Rate
Computer hardware	30%
Equipment	30%
Furniture and fixtures	20%
Leasehold improvements	shorter of lease term or 20%
Office equipment	20%
Vehicles	30%

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

(e) Goodwill:

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is recorded on a reporting unit basis and is not subject to amortization.

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

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

2. Significant accounting policies (continued):

(f) Intangible assets:

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

Asset	Basis	Rate
Customer relationships	Straight-line	over 5 years
Domain names, patents and others	Straight-line	over 5 years
Deferred development costs	Straight-line	over 3 years
Computer software	Declining balance	30%

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

Deferred development costs are amortized on a straight-line basis over 3 years representing the estimated average life cycle of related products. Amortization commences when the internally generated intangible assets are available for use or sale.

The Company develops automated transaction system software and supporting technologies for the prepaid telecom and financial services industries.

(g) Impairment of long-lived assets:

The Company monitors the recoverability of long-lived assets, based on changes in events and circumstances that may indicate impairment such as identifiable current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use or sale of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the discounted estimate of future cash flows expected from the asset. As at October 31, 2011, nil (2010 - nil) impairment losses have been recorded.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

2. Significant accounting policies (continued):

(h) Foreign currency translation:

The Company's functional currency is the Canadian dollar. Foreign denominated monetary assets and liabilities are translated to their Canadian dollar equivalents using foreign exchange rates that prevailed at the balance sheet date. Non-monetary items are translated at historical exchange rates, except for items carried at market value, which are translated at the rate of exchange in effect at the balance sheet date. Revenue and expenses are translated at average rates of exchange during the year. Exchange gains or losses arising on foreign currency translation are included in the determination of operating results for the year.

(i) Income taxes:

The Company follows the asset and liability method of accounting for income taxes. Future income tax assets and liabilities are determined based on temporary differences between the accounting and tax bases of existing assets and liabilities and on losses carried forward, and are measured using the tax rates substantively enacted and expected to apply when these differences reverse and losses are realized. A valuation allowance is recorded against any future tax asset when it is considered more likely than not that the future tax asset will not be realized.

(j) Financial instruments:

The Company's financial instruments consist of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and convertible debentures. Cash and cash equivalents and restricted cash are 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 convertible debentures are classified as other financial liabilities and are measured at amortized cost using the effective interest rate method. Interest expense is recorded in net income, as applicable.

(k) Revenue recognition:

The Company's revenue is comprised of three sources: network revenues represent resale and distribution of prepaid telecommunication products (principally prepaid cellular and prepaid long distance products); equipment and parts sales; and software license and the related services sales. Revenues are recognized when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

2. Significant accounting policies (continued):

(k) Revenue recognition (continued):

The Company's revenues are primarily generated from the distribution of prepaid long distance and cellular telephone time, principally from the sale of prepaid calling cards and point of sale activated PINs. Sales of prepaid calling cards and point of sale activated PINs, in accordance with Emerging Issues Committee ("EIC") No. 123, *Reporting Revenue Gross as Principal versus Net as an Agent*, are recognized on a gross basis as the Company is the primary obligor to its customer and incurs inventory risk.

The resale of prepaid telecommunication services where the Company earns commissions on services sold and does not incur inventory risk are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on a net basis. Equipment sales are ancillary to the resale of prepaid products. Equipment sales and parts revenue is recognized when the equipment and parts are delivered.

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

(l) Deferred revenue:

The Company's deferred revenue represents cash received in excess of revenues recognized on software license and service agreements.

(m) Stock-based compensation:

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

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.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

2. Significant accounting policies (continued):

(m) Stock-based compensation (continued):

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.

(n) Earnings (loss) per share:

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the reporting period. The treasury stock method is used for the calculation of diluted net earnings (loss) per share. Stock options and warrants are dilutive when the average market price of the common shares during the period exceeds the exercise price of the options and warrants. Diluted earnings (loss) per share assumes all outstanding options and warrants have been exercised at the later of the beginning of the fiscal period or the date of issuance.

(o) Related party transactions:

All monetary transactions occurring with related parties in the normal course of operations are measured at the exchange value which is determined by management to approximate fair value.

(p) Comparative figures:

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

3. Future changes in accounting standards:

International Financial Reporting Standards

The Canadian Accounting Standards Board has decided to transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS") effective for fiscal periods commencing on or after January 1, 2011. The Company must prepare its interim and annual consolidated financial statements in accordance with IFRS for the periods beginning on or after November 1, 2011. The Company has completed its initial assessment of the impact of IFRS and is currently working on its detailed assessment which includes the quantification of identified differences.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

4. Restricted cash:

The Company is required to have a \$378,396 (BRL \$645,067) deposit with a bank in Brazil as collateral for guaranteed letters of credit issued to its suppliers.

5. Inventories:

Inventories consisted of the following at October 31:

	2011	2010
Prepaid products	\$ 1,932,905	\$ 1,985,871
Hardware parts	-	7,947
	\$ 1,932,905	\$ 1,993,818

6. Equipment:

Equipment consisted of the following at October 31:

2011	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 705,742	\$ 563,620	\$ 142,122
Equipment	1,951,941	1,013,412	938,529
Furniture and fixtures	79,787	46,692	33,095
Leasehold improvements	13,218	3,584	9,634
Office equipment	94,561	49,960	44,601
Vehicles	33,295	33,295	-
	\$ 2,878,544	\$ 1,710,563	\$ 1,167,981

2010	Cost	Accumulated amortization	Net book value
Computer hardware	\$ 666,042	\$ 510,475	\$ 155,567
Equipment	1,260,287	916,223	344,064
Furniture and fixtures	67,441	39,635	27,806
Leasehold improvements	4,698	2,774	1,924
Office equipment	69,576	44,169	25,407
Vehicles	33,295	33,295	-
	\$ 2,101,339	\$ 1,546,571	\$ 554,768

Equipment with a cost of \$433,951 (2010 - nil) and accumulated amortization of \$29,750 (2010 - nil) is subject to obligations under capital leases. Amortization expense of \$8,145 (2009 - nil) was charged to the consolidated statement of operations related to equipment under capital lease.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

7. Intangible assets:

Intangible assets consist of the following at October 31:

2011	Cost	Accumulated amortization	Net book value
Domain names, patents and other	\$ 74,831	\$ 74,831	\$ -
Customer relationships acquired	458,000	412,193	45,807
Deferred development costs	604,157	-	604,157
Computer software	314,280	186,361	127,919
	<u>\$ 1,451,268</u>	<u>\$ 673,385</u>	<u>\$ 777,883</u>

2010	Cost	Accumulated amortization	Net book value
Domain names, patents and other	\$ 74,831	\$ 74,831	\$ -
Customer relationships acquired	458,000	320,593	137,407
Computer software	271,455	142,366	129,089
	<u>\$ 804,286</u>	<u>\$ 537,790</u>	<u>\$ 266,496</u>

8. Income taxes:

The actual provision for income tax differs from the expected amount calculated by applying the combined applicable Canadian federal and provincial income tax rate to the income before income taxes. The difference relates to the following items at October 31:

	2011	2010
Loss before income taxes	\$ (4,355,556)	\$ (392,679)
Combined Canadian federal and provincial income tax rate	26.83%	28.75%
Expected income tax expense	(1,168,596)	(112,895)
Effect of change in applicable tax rates	35,398	32,041
Differences in rates in jurisdictions	58,803	8,263
Non-deductible permanent differences	229,685	31,924
Adjustment to prior year loss carry forwards	(78,251)	113,347
Refund relating to prior years restatement	-	(64,892)
Change in valuation allowance	904,393	(128,565)
Tax loss carry forwards expired	36,014	23,516
Other	(17,446)	32,369
Net income tax expense (recovery)	<u>\$ -</u>	<u>\$ (64,892)</u>

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

8. Income taxes (continued):

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

	2011	2010
Future tax assets:		
Non-capital losses	\$ 1,344,429	\$ 306,507
Capital losses	370,551	370,551
Financing costs	8,882	1,047
Property, plant and equipment	64,599	77,265
Intangibles	-	7,936
Total gross future tax assets	1,788,461	763,306
Future tax liabilities:		
Intangibles	(155,114)	(34,352)
Net future tax assets	1,633,347	728,954
Valuation allowance	(1,633,347)	(728,954)
	\$ -	\$ -

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

The Company has Canadian non-capital loss carry forwards of approximately \$3,174,000 (2010 - \$861,000) available to reduce future Canadian taxable income expiring as follows:

2026	\$ 170,000
2027	106,000
2029	480,000
2030	121,000
2031	2,297,000
	\$ 3,174,000

As well, the Company has Canadian capital loss carry forwards of approximately \$2,964,000 available to reduce future Canadian taxable capital gains. Finally, the Company has non-capital loss carry forwards in China and Brazil of approximately \$2,283,241, which can be offset to future taxable income. The future potential benefit of these losses has not been recognized as the criteria for recognition has not been met.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

8. Income taxes (continued):

During the year, the Canada Revenue Agency ("CRA") performed an audit of Goods and Services Tax ("GST") for the 2007, 2008 and 2009 years. It was determined that net underpayment of taxes and interest related to these 3 years was approximately \$440,000 (net of overpayments to the Quebec tax authorities). These charges are related to the 3 years stated above and have been reflected as a restatement of opening deficit and an adjustment to accounts payable. As of October 31, 2011, the Company has fulfilled its payment obligations to CRA.

9. Capital leases:

	Note	2011	2010
Capital leases for equipment	(a)	\$ 429,733	\$ -
Capital lease for office equipment	(b)	2,613	7,587
		432,346	7,587
Current portion		(125,081)	(7,587)
		\$ 307,265	\$ -

(a) The Company financed the purchase of equipment by way of a capital leases payable over 3 years, secured by the related equipment, which matures in 2014. The annual interest rate implicit in these capital leases, range from 17.9% to 19.1%.

(b) The Company financed the purchase of office equipment by way of a capital lease payable over 4 years, secured by related equipment, which matures in 2012.

Minimal annual repayments of lease indebtedness for the years ending October 31 are as follows:

2012	\$ 125,081
2013	145,653
2014	161,612
	\$ 432,346

10. 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 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 into one common share of the Company at \$1.00 (the "Warrants"). The Warrants expire on January 26, 2014 or February 22, 2014, respectively.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

10. Convertible debentures (continued):

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

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

Years ended October 31, 2011 and 2010

10. Convertible debentures (continued):

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

	Liability Components		Equity Components	
	Face value	Carrying value	Warrants Carrying value	Conversion feature Carrying value
Balance, as at issuance				
January 26, 2011	\$ 550,000	\$ 308,746	\$ 29,411	\$ 209,715
Accretion	-	25,152	-	-
Mark to market derivative portion	-	71,744	-	-
Balance, as at issuance				
February 22, 2011	2,500,000	1,224,383	124,795	889,860
Accretion	-	134,433	-	-
Mark to market derivative portion	-	368,843	-	-
Balance, as at July 31, 2011	\$ 3,050,000	\$ 2,133,301	\$ 154,206	\$ 1,099,575

11. Share capital:

(a) Authorized:

Unlimited common shares without par value.

Unlimited preference shares without par value

	Number of shares	Amount
Issued and outstanding at October 31, 2009	45,720,461	\$ 8,460,132
Shares issued upon exercise of options	1,604,000	320,800
Transfer from contributed surplus on exercise of options	-	272,680
Issued and outstanding at October 31, 2010	47,324,461	\$ 9,053,612
Shares issued upon exercise of options	192,858	76,428
Transfer from contributed surplus on exercise of options	-	52,000
Shares issued upon equity financings	5,028,333	2,511,589
Issued and outstanding at October 31, 2011	52,545,652	\$ 11,693,629

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

11. Share capital (continued):

(b) 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 one full 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.

On October 12, 2011, the Company issued 3,333,333 equity units in a private placement offering for gross proceeds of \$2,000,000. Each of these units consists of one common share and one half common share purchase warrant, with one full warrant being exercisable to acquire one common share of the Company. Each warrant allows its holder to buy one share of the Company until October 12, 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 10).

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

	Number of shares	Weighted average exercise price
Balance, October 31, 2009 and 2010	-	\$ 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 February 28 equity financing	847,500	0.75
Issued as a result of the October 12 equity financing	1,666,667	0.75
Exercised	-	0.00
Balance, October 31, 2011	4,039,167	\$ 0.84

No warrants were exercised in fiscal 2011.

(c) 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 5 years and vest over eighteen months. During the year ended October 31, 2011, 325,000 options (2010 - 995,000) were granted under the Plan with combined grant date fair value of \$97,199 or \$0.30 per option. The weighted average remaining contractual life of options outstanding as of October 31, 2011 was 0.98 years (2010 - 1.96 years). At October 31, 2011, 367,143 (2010 - 763,571) stock options with a fair value of \$103,631 (2010 - \$203,594) were unvested and will be expensed in future periods.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

11. Share capital (continued):

(c) Stock options (continued):

During the year ended October 31, 2011, the Company recognized \$176,442 (2010 - \$83,217) in stock-based compensation relating to the granting of options. The amount related to employees was \$165,863 (2010 - \$79,310) for the year ended October 31, 2011. This amount is included in general and administrative expense.

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

	Number of shares	Weighted average exercise price
Outstanding, October 31, 2009	5,963,000	\$ 0.55
Granted	995,000	0.44
Exercised	(1,604,000)	(0.20)
Cancelled and 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 and forfeited	(312,142)	0.46
Outstanding, October 31, 2011	4,732,000	\$ 0.62

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

	2011	2010
Risk free interest rate	1.71%	2.13%
Expected dividend yield	nil	nil
Expected option life (years)	5	5
Expected stock price volatility	72%	74%
Weighted average fair value of options granted at market prices	\$0.30	\$0.26

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

11. Share capital (continued):

(c) Stock options (continued):

Options granted to non-employees:

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

The Company accounts for non-employee stock-based compensation using the fair value method. Under this method, stock-based compensation expense is recognized as the stock options are earned on a straight-line basis over the vesting period based on the estimated fair values of options granted. During the year ended October 31, 2011, the Company recognized \$10,579 (2010 - \$3,907) of compensation expense for stock-based compensation awarded to non-employees as an increase to contributed surplus. No options were granted to non-employees during the year ended October 31, 2011.

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

	2011	2010
Risk free interest rate	nil	1.81%
Expected dividend yield	nil	nil
Expected option life (years)	nil	5
Expected stock price volatility	nil	73%
Weighted average fair value of options granted at market prices	nil	\$0.33

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

Range of exercise prices	Options outstanding		Options exercisable		
	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.41 - \$0.60	2,885,000	1.28	\$ 0.51	2,517,857	\$ 0.51
\$0.61 - \$0.98	1,847,000	0.50	0.80	1,847,000	0.80
	4,732,000	0.98	\$ 0.62	4,364,857	\$ 0.63

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

11. Share capital (continued):

(d) 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	176,442
Equity component of convertible debentures (note 10)	1,099,575
Warrants attached to convertible debentures (note 10)	154,206
Warrants attached to February 28 equity issue (note 11(b))	153,131
Warrants attached to October 12 equity issue (note 11(b))	242,094
Transfer to share capital from options exercised	(52,000)
Balance, October 31, 2011	\$ 3,788,504

12. Related party transactions:

The Company had a lease commitment and paid rent of \$49,788 (2010 - \$49,788) to a company in which an employee has a minority equity interest. On November 1, 2008, the Company signed a 3 year lease agreement which expired October 31, 2011. In addition to minimum lease payments of \$4,149 per month, the facility lease required payment of a proportionate share of taxes and strata fees. This transaction was in the normal course of operations and, in management's opinion, undertaken with the terms and conditions consistent with arms' length transactions. 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.

Also during the year this shareholder participated in each of the financings that the Company completed. On January 26, 2011, they invested the full \$550,000 or all 550 units in our private placement offering. On February 22, 2011, they invested \$750,000 or 750 out of 2,500 brokered units offered (note 10). On February 28, 2011, they invested \$252,000 or 420,000 units out of the 1,695,000 units offered. On October 12, 2011 they invested \$2,000,000 or all 3,333,333 units offered (note 11(b)).

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

13. Commitments:

At October 31, 2011, the Company is committed to future minimum annual operating lease payments for its premises for the years ending October 31 as follows:

2012	\$	143,134
2013		59,862
	\$	202,996

14. Loss per common share:

The calculation of diluted net loss per share excludes 4,732,000 (2010 - 4,912,000) shares issuable on the exercise of outstanding stock options on the basis that they are anti-dilutive. It also excludes 4,039,167 (2010 - nil) shares issuable on the exercise of outstanding warrants and 4,765,625 (2010 - nil) shares issuable on the conversion of outstanding convertible debentures on the basis that they are anti-dilutive.

15. Capital risk management:

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

	2011	2010
Line of credit	\$ 500,000	\$ 500,000
Shareholders' equity	2,623,130	2,565,220
	\$ 3,123,130	\$ 3,065,220

The line of credit from 2010 was withdrawn and a new line of credit (the "LOC") implemented during 2011. This new LOC has been set up for the benefit of providing security to suppliers of the Company's Brazilian operations which are currently funded directly by the Company.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

15. Capital risk management:

The Company has provided a general security agreement covering all of its assets as security for the line of credit. The line of credit is subject to certain restrictive covenants, including, but not limited to, incurring additional secured debt and selling assets. The Company is also required to meet certain financial covenants under the line of credit agreement. The Company was in compliance with all reporting requirements under the line of credit agreement, as of October 31, 2011. The Company had not drawn on either of the lines of credit as at October 31, 2011 and 2010.

16. Financial instruments:

The Company's financial instruments as at October 31, 2011 include cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities, and convertible debentures. The fair value of these financial instruments is not materially different from their carrying values due to their short-term nature. There is an embedded derivative in the convertible debenture that is carried at fair value (note 10).

Under requirements of Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3862, "Financial Instruments – Disclosures", the Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Company's fair value hierarchy comprises the following levels:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The fair value of cash was determined using Level 1 inputs.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

16. Financial instruments (continued):

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

	2011	2010
Financial assets:		
Held-for-trading financial assets	\$ 3,907,680	\$ 4,832,659
Loans and receivables	5,309,941	4,132,963
	<u>\$ 9,217,621</u>	<u>\$ 8,965,622</u>
Financial liabilities:		
Other financial liabilities	\$ 11,149,192	\$ 10,204,295

(a) Foreign currency risk:

Foreign currency risk reflects the risk that the Company's net assets or operations will be negatively impacted due to fluctuations in exchange rates. Accounts receivable and payable denominated in foreign currencies come due in the short-term and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations.

The Company does not have foreign currency derivatives in place. The majority of the Company's revenues and purchases are made in Canadian dollars. However certain of the Company's revenues and expenses are denominated in US dollars, Chinese renminbi, and Brazilian real.

During the year ended October 31, 2011, approximately 27% (2010 - 22%) of the Company's gross margin was originated in U.S. dollars and approximately 2% (2010 - 5%) of expenses were incurred in U.S. dollars. Also less than 1% (2010 - 1%) of the Company's gross margin was originated in Chinese renminbi and approximately 4% (2010 - 5%) of expenses were incurred in Chinese renminbi and less than 1% (2010 - nil) of the Company's gross margin was originated in Brazilian real and approximately 19% (2010 - 2%) of expenses were incurred in Brazilian real.

(b) Credit risk:

Credit risk reflects the risk that the Company may be unable to recover accounts receivable. The Company's customers are currently concentrated in Canada, Brazil and in the United Arab Emirates. The Company generally does not require collateral. The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within operating expenses.

When a receivable balance is considered uncollectible, it is written off against the allowance. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

16. Financial instruments (continued):

(b) Credit risk (continued):

The Company is exposed to concentrations of credit risk. As at October 31, 2011, the Company's largest customer group accounted for 12% of consolidated revenues, but the amounts due from the group are collected on an individual basis and generally are individually immaterial. As at October 31, 2011, the maximum credit risk exposure for accounts receivable corresponds to the carrying value.

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

	2011	2010
Total accounts receivable	\$ 5,470,891	\$ 4,325,523
Less: allowance for doubtful accounts	160,950	192,560
Total accounts receivable, net	\$ 5,309,941	\$ 4,132,963

	2011	2010
Of which:		
Current	\$ 3,712,851	\$ 2,962,373
Past due for less than 30 days	469,061	877,205
Past due for less than 60 days	267,803	216,163
Past due for less than 90 days	69,647	8,681
Past due for 90 days or greater	790,579	68,541
Total accounts receivable, net	\$ 5,309,941	\$ 4,132,963

(c) Liquidity risk:

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by monitoring its cash flows and other anticipated expenses to ensure there are sufficient cash resources to meet forecasted operational expenses and financial obligations. As at October 31, 2011, the Company has a working capital balance of \$2,210,490, however; generated a loss of \$4,445,556 for the year then ended. The main reason for this loss is an increase in selling and marketing expenses as compared to the prior year as a result of increased spending associated with growing the Company's Brazil business. The Company will manage its liquidity risk in the coming twelve months by monitoring expenses and cash flows. The Company has also demonstrated the ability to secure additional financing, should the need arise as demonstrated through several financings being completed in 2011.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2011 and 2010

17. Supplementary cash flow information:

	2011	2010
(a) Change in non-cash operating working capital:		
Accounts receivable	\$ (1,176,978)	\$ (588,712)
Deferred revenue	254,959	52,030
Inventories	60,913	424,920
Deposits	(328,670)	-
Prepaid expenses	(38,169)	(55,649)
Accounts payable and accrued liabilities	(1,188,404)	1,541,356
Income taxes recoverable	-	618,373
	<hr/>	<hr/>
	\$ (2,416,349)	\$ 1,992,318
(b) Supplementary information:		
Interest paid	\$ 217,934	\$ 3,095
Equipment acquired through capital leases	433,951	-

18. Restatement costs:

Restatement costs of \$189,867 consisted primarily of professional fees related to an investigation of errors in the Company's 2007 and 2006 consolidated financial statements and the related restatement of those financial statements in fiscal 2009

19. 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.