

Q1

Consolidated Financial Statements
For the Three Months Ended
January 31, 2005 and 2004

VendTek Systems Inc.

2005

VendTek Systems Inc.

Consolidated Balance Sheets

	January 31, 2005 \$ (unaudited)	October 31, 2004 \$ (audited)
Assets		
Current Assets		
Cash and cash equivalents	807,864	508,443
Accounts receivable	160,004	621,333
Inventory [Note 4]	332,879	373,898
Prepaid expenses and deposits	6,662	4,604
	<hr/>	<hr/>
	1,307,409	1,508,278
Property, Plant and Equipment [Note 5]	228,639	230,802
Intangible Assets [Note 5]	25,543	26,863
Deferred Financing Costs [Note 6]	29,058	33,022
	<hr/>	<hr/>
	1,590,649	1,798,965
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	2,102,580	2,131,375
Current portion of long-term debt [Note 6]	4,811	6,486
	<hr/>	<hr/>
	2,107,391	2,137,861
Long-term Debt [Note 6]	488,100	486,400
	<hr/>	<hr/>
	2,595,491	2,624,261
Shareholders' Deficit		
Share Capital [Note 7]	4,802,923	4,802,923
Contributed Surplus	23,349	—
Equity Portion of Convertible Debt [Note 6]	34,000	34,000
Deferred Compensation	(20,013)	—
Deficit	(5,845,101)	(5,662,219)
	<hr/>	<hr/>
	(1,004,842)	(825,296)
	<hr/>	<hr/>
	1,590,649	1,798,965

(See accompanying notes to the consolidated financial statements)

Approved on Behalf of the Board:

"Paul Brock"
Paul Brock, President and Chief
Executive Officer

"Grant Shellborn"
Grant Shellborn, Chief Technical
Officer

VendTek Systems Inc.

Consolidated Statements of Operations and Deficit For the Three Months Ended January 31, 2005 and 2004 (unaudited)

	2005 \$	2004 \$
Revenue <i>[Schedule]</i>	7,569,908	3,751,110
Direct Costs <i>[Schedule]</i>	7,339,885	3,562,743
Gross Profit	230,023	188,367
Expenses <i>[Schedule]</i>		
General and administrative	337,068	367,012
Engineering development	60,747	48,781
Selling and marketing	15,090	30,916
	412,905	446,709
Net Loss	(182,882)	(258,342)
Deficit - Beginning of Period	(5,662,219)	(4,353,519)
Deficit - End of Period	(5,845,101)	(4,611,861)
Net Loss Per Share – Basic and Diluted	(0.01)	(0.01)
Weighted Average Shares Outstanding	32,000,000	23,711,000

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

	2005 \$	2004 \$
Revenue		
License and engineering	3,846	26,550
Pre-paid pin gross revenue	7,541,098	3,562,370
Systems and parts sales	24,964	162,190
	<hr/> 7,569,908	<hr/> 3,751,110
Direct Costs		
Commissions	116,697	14,365
Direct labour	33,613	53,317
Foreign exchange	319	-
Freight, shipping and customs	3,220	8,639
Purchases, net rebates	7,191,834	3,477,343
Subcontract and miscellaneous	(5,798)	9,079
	<hr/> 7,339,885	<hr/> 3,562,743
General and Administrative Expenses		
Accounting, legal and regulatory fees	14,925	36,318
Amortization of deferred finance charges	3,964	3,964
Amortization of intangible assets	1,320	1,739
Amortization of property, plant and equipment	25,318	6,876
Bad debts	4,213	-
Bank charges and interest	3,310	5,347
Computer	2,603	6,252
Interest on long-term debt	15,615	18,359
Investor relations	5,856	3,571
Office and miscellaneous	30,493	38,226
Rent and utilities [Note 8]	28,400	38,699
Salaries and benefits	166,952	186,194
Stock-based compensation	3,336	-
Telecommunications	22,591	18,662
Travel and promotion	8,172	2,805
	<hr/> 337,068	<hr/> 367,012
Engineering Expenses		
Wages and benefits	60,747	48,781
Selling and Marketing Expenses		
Advertising, promotion and trade shows	4,490	7,941
Travel	7,897	22,975
Wages and benefits	2,703	-
	<hr/> 15,090	<hr/> 30,916

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

	2005 \$	2004 \$
Operating Activities		
Net loss	(182,882)	(258,342)
Items not involving cash		
Accretion of convertible debenture to face value	1,700	1,700
Amortization of deferred finance charges	3,964	3,964
Amortization of intangible assets	1,320	1,739
Amortization of property, plant and equipment	25,318	6,876
Stock-based compensation	3,336	—
Changes in non-cash operating working capital items		
Accounts receivable	461,329	(46,041)
Inventory	41,019	(102,437)
Prepaid expenses and deposits	(2,058)	44,920
Accounts payable and accrued liabilities	(28,795)	91,593
Customer deposits	—	(41,911)
Cash Provided By (Used In) Operating Activities	324,251	(297,939)
Financing Activities		
Issuance of convertible debentures	—	193,500
Repayment of capital lease obligations	(1,675)	(4,641)
Cash Provided By Financing Activities	(1,675)	188,859
Investing Activities		
Purchase of tangible assets	(23,155)	(808)
Cash Used In Investing Activities	(23,155)	(808)
Increase (Decrease) in Cash and Cash Equivalents	299,421	(109,888)
Cash and Cash Equivalents - Beginning of Period	508,443	139,217
Cash and Cash Equivalents - End of Period	807,864	29,329
Non-cash Investing and Financing Activities	—	—
Supplemental Disclosures		
Interest paid	15,615	18,511
Income taxes paid	—	—

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

1. Nature of Operations and Continuance of Business

VendTek Systems Inc. (the "Company") develops and licenses transaction automation system software and supporting technologies focusing primarily in the prepaid telecom and financial services industries. The Company is commercializing its products through a) its wholly-owned subsidiaries, Now Prepay Corp., based in Port Coquitlam, British Columbia, Canada and VendTek Systems Technologies (Beijing) Co., Ltd., which is based in Beijing, China, and VendTek Systems Asia Pacific (Singapore) Pte. Ltd., which is based in Singapore; and b) its customers.

VendTek's e-Fresh™ products provide infrastructure to service providers, retailers and retail distributors allowing them to distribute electronic products and services with increased efficiency. By licensing to its customers, the Company is developing sources of recurring license revenues from a global and growing market.

These consolidated financial statements have been prepared on the going concern basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company has incurred significant operating losses over the last five years and has a working capital deficiency of \$799,982 at January 31, 2005. These factors raise substantial doubt about the Company's ability to operate as a going concern. The continued operations of the Company are dependent on its ability to generate future profitable operations and obtain additional financing.

Management is of the opinion that sufficient working capital will be obtained from operations or external financing to meet the Company's liabilities and commitments as they become due. There is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company.

2. Summary of Significant Accounting Policies

a) Basis of consolidation and presentation

These financial statements include the accounts of the Company and its wholly owned Canadian subsidiaries, VendTek Industries Inc., and Now Prepay Corp. VendTek Industries Inc. owns VendTek International Inc. (a U.S. company), which is inactive and has no assets. These financial statements also include the accounts of its wholly owned operating Asian subsidiaries, VendTek Systems Technologies (Beijing) Co., Ltd. and VendTek Systems Asia Pacific (Singapore) Pte. Ltd.

b) Use of estimates

The preparation of these consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 allowance for doubtful accounts, inventory valuation and the useful life of property, plant and equipment including intangible assets. Actual results could differ from those estimates.

c) Cash and cash equivalents

Cash and cash equivalents include: cash on hand, in banks, in lawyer's trust and all highly liquid investments with a maturity of three months or less when purchased.

d) Inventory

Inventory is carried at the lower of weighted average cost and net realizable value.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

2. Summary of Significant Accounting Policies (continued)

e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated amortization. For the assets listed below, amortization is computed on the declining balance basis over the estimated useful life of the asset at the following annual rates:

Computer hardware	30%
Computer hardware under capital lease	30%
Computer software	100%
Equipment	20%
Furniture and fixtures	20%
Office equipment	20%
Tools and dies	30%

f) Intangible assets

Intangible assets with estimated useful lives are stated at cost less accumulated amortization. Amortization is computed on a straight-line basis over five years for patents and domain names, and on a straight-line basis over three years for website development costs. Website planning and operating costs are charged to operations.

g) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use 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 undiscounted estimate of future cash flows from the asset. To January 31, 2005, no impairment losses have been recorded.

h) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. The financial statements of the Company's operations whose functional currency is not the Canadian dollar are translated to Canadian dollars at the exchange rate in effect at the balance sheet date for assets and liabilities, and at average rates for the period for revenues and expenses.

Transactions for the Company's Canadian operations denominated in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date for monetary assets and liabilities, and at historical exchange rates for non-monetary assets and liabilities. Revenues and expenses are translated at average rates for the period, except for amortization, which is translated on the same basis as the related assets. Resulting gains or losses are reflected in direct costs in the statement of operations.

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 are measured using the tax rates expected to apply when these differences reverse. A valuation allowance is recorded against any future tax asset if it is more likely than not that the asset will not be realized.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

2. Summary of Significant Accounting Policies (continued)

i) Income taxes

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

j) Corporate transaction costs

The Company accounts for the direct costs of corporate transactions as follows:

(i) Issue of Equity Securities

These costs are deferred if the transaction is more likely than not to be completed. Upon completion the costs are recorded as a capital transaction and applied to reduce gross proceeds of the equity securities issued. If the transaction is abandoned the costs are charged against operations.

(ii) Issue of Debt Securities

These costs are deferred if the transaction is more likely than not to be completed. Upon completion the costs are recorded as an asset and amortized to operations over the term to maturity. If the transaction is abandoned the costs are charged against operations.

k) Financial instruments

(i) Fair values

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values due to their short-term maturity. The fair values of capital lease obligations and long-term debt are estimated to approximate their carrying values based on borrowing rates currently available to the Company for loans with similar terms.

(ii) Foreign currency risk

Foreign currency risk reflects the risk that the Company's foreign currency denominated net assets or operations will be negatively impacted due to fluctuations in exchange rates. Revenue and expenses of the Company 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 hedges in place.

(iii) Credit risk/economic dependence

Financial instruments subjecting the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with high quality financial institutions.

The Company's customers are concentrated in Canada and China. As at January 31, 2005, 31% (2003 – 55%) of the Company's accounts receivable is with one customer. The Company performs ongoing credit evaluations and generally does not require collateral based upon factors surrounding the credit risk of customers, historical trends and other information.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

2. Summary of Significant Accounting Policies (continued)

l) Revenue recognition

The Company's revenue is comprised of three sources: systems and parts sales, license and engineering revenue and the resale of prepaid telecommunication services, principally from the sale of prepaid calling and prepaid cellular services. Revenue is recognized in accordance with EIC-141, "Revenue Recognition". Revenue is recognized when a contractual arrangement is in place, the fee is fixed and determinable, and the products and services have been delivered to the customer.

The resale of prepaid long distance – sales of third party brands "first use cards" where the Company incurs inventory risk and is not the ultimate obligor to the retail or wholesale customer are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on the gross basis with the cost of inventory recorded as direct costs because of the risk of carrying inventory.

m) Stock-based compensation

The Company has a stock option plan, which is described in Note 7(d). The Company recognizes stock-based compensation expense in accordance with CICA Handbook Section 3870 "*Stock-based Compensation and Other Stock-based Payments*". When stock or stock options are issued to non-employees, compensation expense is recognized based on the fair value of the stock options issued. During 2005, the Company changed its accounting policy related to employee stock options, and began to recognize compensation expense for stock or stock option grants to employees, based on the fair value of the stock or stock options issued. See Notes 3 and 7(d).

n) Loss per share

Basic net earnings (loss) per share is computed using the weighted average number of common shares outstanding during the periods. 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.

As the Company has recorded a net loss in each of the periods presented, basic and diluted net loss per share are the same since the exercise of warrants or options or the conversion of convertible securities would reduce the loss per share.

o) Comparative figures

Certain comparative figures have been reclassified to confirm with the current period's presentation.

3. Change in Accounting Policy

On November 1, 2004, the Company adopted the provisions of CICA Handbook Section 3870, "*Stock-Based Compensation and Other Stock Based Payments*", as it relates to employee stock options. In accordance with the provisions of this section, the Company has accounted prospectively for all employee stock options granted, settled or modified since November 1, 2004 using the fair value method. The fair value method requires the Company to expense the fair value, as determined using the Black-Scholes option pricing model, of the employee options granted or modified during a period. Accordingly, the Company has recorded an amount of \$23,349 in respect of employee options granted in 2005 (Note 7(d)). Pro forma loss will continue to be disclosed as it relates to employee stock options granted and modified during 2004.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

4. Inventory

	January 31, 2005	October 31, 2004
	\$	\$
Finished goods	-	1,541
Prepaid long distance	325,075	365,543
Raw materials	7,804	6,814
	<u>332,879</u>	<u>373,898</u>

5. Property, Plant and Equipment and Intangible Assets

	Cost \$	Accumulated Amortization \$	January 31, 2005 Net Carrying Value \$	October 31, 2004 Net Carrying Value \$
Property, Plant and Equipment				
Computer hardware	218,016	126,136	91,880	105,711
Computer hardware under capital lease	56,326	44,769	11,557	12,494
Computer software	29,000	24,297	4,703	5,375
Equipment	157,572	48,272	109,300	95,444
Furniture and fixtures	9,855	4,323	5,532	5,818
Office equipment	14,244	8,577	5,667	5,960
	<u>485,013</u>	<u>256,374</u>	<u>228,639</u>	<u>230,802</u>
Intangible Assets				
Domain names and patent costs	71,710	46,168	25,543	26,863

6. Long-term Debt

	January 31, 2005	October 31, 2004
	\$	\$
Convertible Debentures – See (b) below	488,100	486,400
Capital Leases - capital leases in respect of computer equipment mature at varying dates to 2005 and bear interest at a weighted average rate of 13.5%	4,811	6,486
	<u>492,911</u>	<u>492,886</u>
Less: Current portion of capital leases	<u>(4,811)</u>	<u>(6,486)</u>
	<u>488,100</u>	<u>486,400</u>

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

6. Long-term Debt (continued)

(a) Convertible Debentures

On November 29, 2001 the Company completed a convertible debenture financing. The Company received \$500,000 and issued \$500,000 of redeemable convertible debentures with a principal amount of \$1,000 each to one investor. A 7% cash finders' fee was paid. Costs of completing this transaction, totalling \$76,346, were deferred and are amortized to operations over the five-year term. The debentures attract interest at a rate of 9½% per annum and mature June 30, 2006. These debentures are convertible, at the option of the holder, into common shares at the following rates:

- i) July 1, 2004 to June 30, 2005 - \$4.00 per share
- ii) July 1, 2005 to June 30, 2006 - \$5.00 per share

The estimated equity value of the conversion feature of the debentures totalling \$34,000, was included as a separate component of shareholders' equity. The equity component was calculated as the difference between the gross proceeds received by the Company and the discounted cash flow of repayments based on an annual rate of 12%, which was consistent with similar borrowings available to the Company, without conversion features. The remaining portion of \$466,000 was classified as a long-term liability. The debt component is being accreted to its face value at maturity over the term of the debt through a charge to interest expense.

(b) Convertible Promissory Note

During January 2004, the Company secured a US\$150,000 convertible promissory note, which was repaid in April 2004. Interest of 10% was payable monthly. Repayment was subject to acceleration in the event that the Company completed a financing of at least US\$750,000.

7. Share Capital

Authorized:

100,000,000 common shares without par value

	#	Value \$
Issued at October 31, 2003	23,711,294	3,588,439
Issued for cash pursuant to a private placement ((a) below)	8,160,211	1,224,032
Issued for finders' fees	529,547	79,432
Less cost of shares issued	—	(88,980)
<hr/>		
Issued at October 31, 2004 and January 31, 2005	32,401,052	4,802,923

(a) Private placement

On March 26, 2004 and April 13, 2004, the Company completed a private placement in tranches of 4,967,544 and 3,192,667 units at \$0.15 per unit for gross proceeds of \$1,224,032. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of \$0.20 expiring April 13, 2006 and March 26, 2006 respectively. The Company issued an additional 529,547 units in finders' fees.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

7. Share Capital (continued)

(b) Escrowed shares

2,000,000 shares held in escrow were released on May 3, 2001. 500,000 shares were immediately released to the shareholders and 1,500,000 shares were immediately transferred to an earn-out Pool Agreement. On May 3, 2002, 500,000 shares were released and the remaining 1,000,000 shares were released on December 9, 2003.

As at January 31, 2005, there are 363,146 shares held in escrow.

(c) Share purchase warrants

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

	Number of shares	Weighted average exercise price \$
Balance, October 31, 2003	5,201,728	0.18
Issued with private placement [Note 7(a)]	8,689,758	0.20
Expired	(4,003,126)	0.17
<hr/>		
Balance, October 31, 2004	9,888,360	0.21
Expired	(1,198,602)	0.20
<hr/>		
Balance, January 31, 2005	8,689,758	0.20

Warrants outstanding as at January 31, 2005:

#	Exercise Price \$	Expiry Date
5,198,913	0.20	March 26, 2006
3,490,845	0.20	April 13, 2006
<hr/>		
8,689,758		

(d) Stock options

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

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

7. Share Capital (continued)

(d) Stock options (continued)

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

	Number of shares	Weighted average exercise price \$
Outstanding, October 31, 2003	1,995,900	0.20
Granted	830,000	0.20
Forfeited	(195,000)	0.20
Expired	(582,000)	0.20
Outstanding, October 31, 2004	2,048,900	0.20
Granted	543,000	0.20
Outstanding, January 31, 2005	2,591,900	0.20
Exercisable at end of period	1,652,185	0.20

Additional information regarding options outstanding as at January 31, 2005 is as follows:

Exercise price \$	Outstanding			Exercisable	
	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number Exercisable	Weighted average exercise price \$
0.20	2,591,900	2.6	0.20	1,652,185	0.20

During 2005, the Company adopted the provisions of CICA Handbook Section 3870, "Stock Based Compensation and Other Stock Based Payments", as it relates to employee stock options. See Note 3 for a description of the effects of this change in accounting policy.

The total fair value of employee stock options granted during 2005 was \$23,349. Of this amount, the Company recognized \$3,336. The weighted average grant date fair value of options granted during 2005 was \$0.043.

The fair value for stock options granted was estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2004
Interest rate	3.76%
Expected life (in years)	5
Expected volatility	50%

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2005 and 2004

(unaudited)

7. Share Capital (continued)

(d) Stock options (continued)

The Company is required to disclose the pro forma effects on net loss and net loss per share as if the Company had elected to use the fair value approach to account for its employee stock-based compensation plans for any options granted, settled or modified from November 1, 2003 to October 31, 2004. If this approach had been applied, the Company's loss and loss per share would have been as indicated below:

	Three months ended January 31,	
	2005 \$	2004 \$
Net loss		
As reported	(179,546)	(258,342)
Pro forma	(184,317)	(258,900)
Net loss per share – basic and diluted		
As reported	(0.01)	(0.01)
Pro forma	(0.01)	(0.01)

8. Related Party Transactions

For the three months ended January 31, 2005, the Company paid rent of \$16,824 (2004: \$21,282) to a company in which a director has a minority interest. The Company's premises lease with the related company expired on October 31, 2001 and is currently on a month-to-month basis. This transaction was in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as a transaction with unrelated parties.

9. Segmented Information

The Company operates in one industry and two geographic segments, being Canada and Asia. The accounting policies of the segments are the same as those described in Note 2.

	Canada			Asia	Total
	Now Prepay Corp. \$	Other \$	Total \$	\$	\$
Q1 2005					
Revenue	7,549,233	15,361	7,564,594	5,314	7,569,908
Amortization	11,757	18,108	29,865	737	30,602
Write-down of inventory	–	–	–	–	–
Segment operating loss	(45,219)	(100,931)	(146,150)	(33,394)	(179,544)
Segment assets	1,330,214	199,817	1,530,031	57,988	1,588,019
Q1 2004					
Revenue	3,658,390	42,611	3,701,001	35,744	3,736,745
Amortization	–	7,925	7,925	690	8,615
Write-down of inventory	3,850	–	3,850	–	3,850
Segment operating loss	(72,450)	(170,128)	(242,578)	(15,763)	(258,341)
Segment assets	669,917	460,982	1,130,899	42,717	1,173,616

Q1

Management Discussion & Analysis
For the Three Month Period Ending
January 31, 2005

VendTek Systems Inc.

VendTek Systems Inc.
Management's Discussion and Analysis
For the Quarter Ended January 31, 2005

The following discussion and analysis as of March 15, 2005 should be read in conjunction with the Company's interim unaudited financial statements for the three months ended January 31, 2005 and accompanying notes thereto which have been prepared in accordance with Canadian generally accepted accounting principles. In addition, the following should be read in conjunction with the 2004 audited financial statements and the related annual Management Discussion and Analysis on file with the Canadian provincial securities regulatory authorities. All figures are in Canadian dollars. Additional information relating to the Company is available on SEDAR at www.sedar.com.

Overall Performance

VendTek Systems Inc. (the "Company") develops and licenses transaction automation system software and supporting technologies focusing primarily in the prepaid telecom and financial services industries. The Company is commercializing its products through a) its wholly-owned subsidiaries, Now Prepay Corp., based in Port Coquitlam, British Columbia, Canada and VendTek Systems Technologies (Beijing) Co., Ltd., which is based in Beijing, China, and VendTek Systems Asia Pacific (Singapore) Pte. Ltd., which is based in Singapore; and b) its customers.

The Company's foremost product is its proprietary e-Fresh™ software which consists of a suite of server applications and corresponding client modules. The e-Fresh™ software is used to create a distribution system which can be used to sell services on proprietary or non-proprietary hardware thereby creating an e-Fresh™ network.

VendTek's e-Fresh™ products provide infrastructure to service providers, retailers and retail distributors allowing them to distribute electronic products and services with increased efficiency. By licensing to its customers, the Company is developing sources of recurring license revenues from a global and growing market. Recurring revenues result from a fee being paid to VendTek each time a transaction occurs on one of the system terminals.

The e-Fresh™ software utilizes POS terminals and other electronic terminals as clients which connect to a central server and provide secure electronic distribution for prepaid goods and services to consumers in real time. In addition to VendTek manufactured kiosk terminals, third party bank machines, POS terminals, PC based kiosks, and web browsers are all potentially suitable distribution points. Compared to the traditional method of delivering prepaid services using paper or plastic vouchers, distributing 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.

The Company initially entered the e-Fresh™ business by developing a self-serve terminal product for smart card vending and loading for Visa International's Visa Cash™ smart cards. This product development facilitated development of the prepaid PIN distribution and money transfer systems later introduced.

As part of the Company's strategy to develop recurring sources of revenues from the e-Fresh™ software, the Company has developed its own electronic distribution business across Canada under the Now Prepay™ brand and the Now Prepay Corp. subsidiary. Now Prepay is currently selling all four national cellular providers in addition to the most popular long distance products. As well, Now Prepay Corp. sells its own branded long distance products: Now#1 and Connect Now. The Now Prepay business is generating rapidly growing recurring revenues from the sale of these prepaid services through the e-Fresh™ network it has created.

VendTek Systems Technologies (Beijing) is incorporated in China for developing e-Fresh™ licensed customers. This company's mandate is to generate recurring license revenues from the world's largest prepaid market and largest cellular market. VendTek's Chinese operations include sales and marketing, customer support and engineering. With two years of operating history, VendTek is well positioned to be the leading supplier of electronic distribution software in China.

VendTek Asia Pacific, incorporated and located in Singapore, is developing the e-Fresh™ market in South East Asia. VendTek Asia Pacific has already initiated projects in Singapore and Malaysia.

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The Company's revenues are materially derived from the e-Fresh™ based businesses. This consists primarily of voucher sales revenues from the Now Prepay business and the license fees from VendTek Systems China and VendTek's other customers.

The Company's consolidated financials include the revenues from the Now Prepay business in which a high volume of sales yields a relatively low transaction based margin. These revenues are consolidated with the relatively high margin business of software licensing, but with as of yet much lower total revenues. The Company anticipates increasing revenues from both the Now Prepay business and software licensing resulting in increasing consolidated gross margin over time.

Selected Annual Information

	2004	2003	2002
Total assets	1,798,965	1,191,717	1,933,021
Total long term financial liabilities	486,400	486,527	491,187
Revenue	21,741,821	11,368,940	2,168,772
Net Loss	(1,308,700)	(1,428,268)	(891,291)
Net loss per share ¹	(0.04)	(0.06)	(0.07)

Summary of Quarterly Results

Quarter Ended	Revenue	Loss	Loss per share¹
January 31, 2005	7,569,908	(182,882)	(0.01)
October 31, 2004	6,838,120	(560,218)	(0.01)
July 31, 2004	6,174,583	(221,882)	(0.01)
April 30, 2004	4,642,131	(268,258)	(0.01)
January 31, 2004	3,751,110	(258,342)	(0.01)
October 31, 2003	3,420,481	(682,720)	(0.06)
July 31, 2003	3,157,405	(281,256)	(0.01)
April 30, 2003	2,583,221	(157,307)	(0.01)

¹ As the Company has recorded a loss in each period and since the exercise of warrants and options would reduce loss per share, basic and diluted earnings per share are the same.

Results of Operations

The consolidated gross profit for the first quarter of 2005 was \$230,000 compared to \$188,000 for the same period in 2004, an increase of 23%. The high revenues generated by Now Prepay accounted for the majority of the consolidated gross profits that remain indicative of the low margin virtual prepaid telecommunications industry in which Now Prepay conducts its business.

For the eighth consecutive quarter, revenues have continued to grow. The increase is primarily indicative of the continued growth of the Company's subsidiary Now Prepay Corp. As at January 31, 2005, there were 6,012 terminals deployed and reflects a growth of 108% compared to 2,879 terminals active at the same time last year. The ongoing installation of POS terminals across Canada for the sale of virtual prepaid telecommunications vouchers provides meaningful revenues which are augmented by the wholesale portion of Now Prepay's prepaid cellular business.

Revenues rose 101% for the three month period to \$7,570,000 compared to \$3,751,000 for the same period in 2004. The revenues are comprised of prepaid PIN revenue of \$7,541,000 (Q1 2004 \$3,562,000), license and engineering revenues of \$4,000 (Q1 2004 \$27,000), and systems and parts sales of \$25,000 (Q1 2004 \$162,000).

License and engineering revenues were down \$23,000 (86%) due to a reduction of engineering service services supplied. Systems and parts revenues also decreased in the period by \$137,000 (85%) due to fewer orders.

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Direct costs have increased 106% in the quarter to \$7,340,000 compared to \$3,563,000 for the same period in 2004. Purchases of product for sale have increased by \$3,714,000 and commission payments to Independent Sales Partners have increased by \$102,000 in Q1 2005 compared to the Q1 2004. This is due to the increased number of terminals selling product as well as the amount of product being sold. However, these increased expenses are partially offset by a \$35,000 (55%) reduction in labour and subcontracting costs.

General and administrative ("G&A") expenses have decreased by \$30,000 (9%) to \$337,000 for the three months compared to \$367,000 for the same period 2004. Telecommunications, amortization and bad debt expenses rose by \$27,000 (104%) due to increased costs associated with Now Prepay telecommunication lines as well as an increase in amortization costs due to new terminal purchases. The increases were offset by reductions in almost every other category; accounting and legal fees decreased by \$21,000 (59%), computer expenses decreased by \$4,000 (58%), banking charges decreased by \$2,000 (38%), office expenses decreased by \$8,000 (20%), rent decreased by \$10,000 (26%) and salary expenses were reduced by \$19,000 (10%); all due to decreased spending. Long term interest and investor relations expenses increased slightly by \$2,000 (17%) and \$2,000 (65%) respectively. Travel and promotional expenses were up \$5,000 (190%) due to increased travel and automotive expenses as well as meals and other marketing expenses.

Engineering expenses did increase \$12,000 (25%) to \$61,000 for the quarter compared to \$49,000 for Q1 2004. The increase is due to more use of contract engineering and additional engineering staff in VendTek Technologies Beijing.

Selling and marketing expenses decreased by \$16,000 (51%) to \$15,000 for the Q1 2005 period compared to \$31,000 for the Q1 2004 period. The decrease is due to reduced sales travel, advertising and trade show expenses. The reduction of expenses was offset slightly by wages paid on contract of \$3,000.

Net loss for the quarter was (\$183,000) or (\$0.01) per share compared to (\$258,000) or \$(0.01) per share for the same quarter of 2004. This decrease in loss was due to higher systems revenues and increased virtual telecommunication sales.

Liquidity and Capital Resources

As of January 31, 2005, the Company had a working capital deficiency of \$800,000. 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, related party debt, and cash flow from its operating activities including customer deposits and 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. The Company's current contractual obligations are as follows:

	January 31, 2005 \$	October 31, 2004 \$
Convertible Debentures	488,100	486,400
Capital Leases - capital leases in respect of computer equipment mature at varying dates to 2005 and bear interest at a weighted average rate of 13.5%	4,811	6,486
	492,911	492,886

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Less: Current portion of capital leases	(4,811)	(6,486)
	488,100	486,400

Convertible Debentures

On November 29, 2001 the Company completed a convertible debenture financing. The Company received \$500,000 and issued \$500,000 of redeemable convertible debentures with a principal amount of \$1,000 each to one investor. A 7% cash finders' fee was paid. Costs of completing this transaction, totalling \$76,346, were deferred and are amortized to operations over the five-year term. The debentures attract interest at a rate of 9½% per annum and mature June 30, 2006. These debentures are convertible, at the option of the holder, into common shares at the following rates:

- i) July 1, 2004 to June 30, 2005 - \$4.00 per share
- ii) July 1, 2005 to June 30, 2006 - \$5.00 per share

The estimated equity value of the conversion feature of the debentures totalling \$34,000, was included as a separate component of shareholders' equity. The equity component was calculated as the difference between the gross proceeds received by the Company and the discounted cash flow of repayments based on an annual rate of 12%, which was consistent with similar borrowings available to the Company, without conversion features. The remaining portion of \$466,000 was classified as a long-term liability. The debt component is being accreted to its face value at maturity over the term of the debt through a charge to interest expense.

Outstanding Share Data

Please see Notes 6 and 7 to the Company's financial statements for the quarter ended January 31, 2005, to which this Management Discussion and Analysis relates.

Changes in Accounting Policies including Initial Adoption

On November 1, 2004, the Company adopted the provisions of CICA Handbook Section 3870, "Stock-Based Compensation and Other Stock Based Payments", as it relates to employee stock options. In accordance with the provisions of this section, the Company has accounted prospectively for all employee stock options granted, settled or modified since November 1, 2004 using the fair value method. The fair value method requires the Company to expense the fair value, as determined using the Black-Scholes option pricing model, of the employee options granted or modified during a period. Accordingly, the Company has recorded an amount of \$23,349 in respect of employee options granted in 2005. Pro forma loss will continue to be disclosed as it relates to employee stock options granted and modified during 2004.

Related Party Transactions

For the three months ended January 31, 2005, the Company paid rent of \$16,824 (2004: \$21,282) to a company in which a director has a minority interest. The Company's premises lease with the related company expired on October 31, 2001 and is currently on a month-to-month basis. This transaction was in the normal course of operations and, in management's opinion, undertaken with the same terms and conditions as a transaction with unrelated parties.

Forward-looking Statements

This Management's Discussion and Analysis contains certain forward-looking statements. All statements, other than statements of historical fact, included herein, including without limitation, statements regarding

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future plans and objectives of the Company are forward-looking statements that include various risks and uncertainties. There can be no assurance that such statements will prove accurate, and actual results and future events could differ materially from those anticipated in such statements. Important factors that could cause actual results to differ materially from the Company's expectations are disclosed in Company documents filed from time to time with the TSX Venture Exchange and other regulatory authorities.

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