VendTek Systems Inc.

Management Discussion & Analysis

Form 51-102F1

For the Six Month Period Ending

April 30, 2005

VendTek Systems Inc.
Management's Discussion and Analysis
For the Quarter Ended April 30, 2005

The following discussion and analysis as of June 29, 2005 should be read in conjunction with the Company's interim unaudited financial statements for the six months ended April 30, 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.

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.

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 share[1]**
April 30, 2005	8,315,722	(194,392)	(0.01)
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 two quarters of 2005 was $503,000 compared to $361,000 for the same period in 2004, an increase of 39%. The high revenues generated by Now Prepay accounted for the majority of the consolidated gross profits.

For the ninth successive quarter, revenues have continued to grow. The increase is a result of the continued growth of the Company's subsidiary Now Prepay Corp. As at April 30, 2005, there were 6,476 terminals deployed which reflects a growth of 69% compared to 3,825 terminals active at the same time last year. The ongoing installation of POS terminal software clients across Canada for the sale of prepaid telecommunications vouchers has provided growth and a continually expanding customer base.

Revenues rose 88% for the six month period to $15,886,000 compared to $8,455,000 for the same period in 2004. The revenues are comprised of prepaid PIN revenue of $15,831,000 (Q2 2004 $8,207,000), license and engineering revenues of $10,000 (Q2 2004 $43,000), and systems and parts sales of $45,000 (Q2 2004 $205,000).

License and engineering revenues were down $33,000 (76%) due to a reduction of engineering service services supplied. Systems and parts revenues also decreased in the period by $160,000 (78%) due to fewer orders.

Direct costs have increased 90% in the six month period to $15,383,000 compared to $8,094,000 for the same period in 2004. This is due to the increased number of terminals selling product as well as the amount of product being sold. Purchases of product for sale have increased by $7,163,000 and commission payments to Independent Sales Partners have increased by $164,000 in 2005 compared to

2004. However, these increased expenses are partially offset by a $34,000 (32%) reduction in labour and subcontracting costs.

General and administrative ("G&A") expenses have remained virtually constant, decreasing by $5,000 or less than one percent, to $711,000 for the six months compared to $716,000 for the same period 2004. Telecommunications, amortization, banking charges and bad debt expenses rose by $49,000 (62%) 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 $34,000 (41%), computer expenses decreased by $3,000 (25%), office expenses decreased by $1,000 (12%), interest on long-term debt decreased by $6,000 (18%), rent decreased by $24,000 (31%) and salary expenses were reduced by $8,000 (2%); all due to decreased spending. Investor relations expenses increased by $5,000 (46%) Travel and promotional expenses were up $12,000 (188%) due to increased non-sales related travel and automotive expenses as well as meals and other marketing expenses.

Engineering expenses increased $18,000 (16%) to $61,000 for the period compared to $49,000 for the same period in 2004. The increase is due to increased use of contract engineering and salary increases to engineering staff.

Selling and marketing expenses decreased by $21,000 (52%) to $41,000 for the six month period compared to $62,000 for the same 2004 period. The decrease is due to reduced sales travel and the reduction of wage expenses. The reduction of expenses was offset by a $6,000 (56%) increase in advertising and trade show expenses.

Net loss for the six months ended April 30, 2005 was ($377,000) or ($0.01) per share compared to ($527,000) or $(0.01) per share for the same period of 2004. This decrease in loss was due to higher systems revenues and increased virtual telecommunication sales.

Liquidity and Capital Resources

As of April 30, 2005, the Company had a working capital deficiency of $980,000. 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:

	April 30, 2005 $	October 31, 2004 $
Convertible Debentures	489,800	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%	3,088	6,486
	492,888	492,886
Less: Current portion of capital leases	(3,088)	(6,486)
	489,800	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 April 30, 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 six months ended April 30, 2005, the Company paid rent of $26,128 (2004 - $39,780) 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 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.