

VendTek Systems Inc.
Consolidated Financial Statements
For the Years Ended
October 31, 2005 and 2004



**DALE MATHESON
CARR-HILTON LABONTE**
CHARTERED ACCOUNTANTS

Partnership of:
Vancouver Robert J. Burkart, Inc. James F. Carr-Hilton, Ltd. Alvin F. Dale, Ltd.
Peter J. Donaldson, Inc. Reginald J. LaBonte, Ltd.
Robert J. Matheson, Inc.
Surrey Peter J. Donaldson, Inc. Fraser G. Ross, Ltd.
Port Coquitlam Wilfred A. Jacobson, Inc. Brian A. Shaw, Inc. Anthony L. Soda, Inc.
Fraser G. Ross, Ltd.

AUDITORS' REPORT

To the Shareholders of VendTek Systems Inc.:

We have audited the balance sheet of VendTek Systems Inc. as at October 31, 2005 and the statement of loss and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at October 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles which have been applied on a consistent basis.

The financial statements as at October 31, 2004 and for the year then ended were examined by other auditors who expressed an opinion without reservation on these statements in their report dated January 14, 2005.

**DALE MATHESON CARR-HILTON LABONTE
CHARTERED ACCOUNTANTS**

February 3, 2006
Vancouver, Canada

A MEMBER OF 網MGI INTERNATIONAL, A WORLDWIDE NETWORK OF INDEPENDENT ACCOUNTANTS AND BUSINESS ADVISORS

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VendTek Systems Inc.

Consolidated Balance Sheets

As at October 31, 2005 and 2004

	2005 \$	2004 \$
Assets		
Current Assets		
Cash and cash equivalents	246,616	508,443
Accounts receivable	1,198,892	621,333
Inventory [Note 3]	763,409	373,898
Prepaid expenses and deposits	4,722	4,604
	<hr/>	<hr/>
	2,213,639	1,508,278
Property, Plant and Equipment [Note 4]	204,495	230,802
Intangible Assets [Note 4]	21,491	26,863
Deferred Finance Fees [Note 5]	17,166	33,022
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	2,456,791	1,798,965
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	2,665,120	2,131,375
Current portion of long-term debt [Note 5]	495,811	6,486
	<hr/>	<hr/>
	3,161,902	2,137,861
Long-term Debt [Note 5]	7,523	486,400
	<hr/>	<hr/>
	3,168,454	2,624,261
Shareholders' Deficit		
Share Capital [Note 6]	5,153,012	4,802,923
Contributed Surplus	147,900	-
Equity Portion of Convertible Debt [Note 5]	34,000	34,000
Deficit	(6,046,575)	(5,662,219)
	<hr/>	<hr/>
	(711,663)	(825,296)
	<hr/>	<hr/>
	2,456,791	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

"Stuart Wooldridge"
Stuart Wooldridge, Director and Audit
Committee

VendTek Systems Inc.

Consolidated Statements of Operations and Deficit

For the Years Ended October 31, 2005 and 2004

	2005 \$	2004 \$
Revenues <i>[Schedule]</i>	38,354,035	21,741,821
Direct Costs <i>[Schedule]</i>	36,806,590	20,969,981
Gross Profit	1,547,445	771,840
Expenses <i>[Schedule]</i>		
General and administrative	1,504,720	1,441,106
Product development	267,175	274,733
Selling and marketing	141,051	186,232
	1,912,946	1,902,071
Loss Before Undernoted Item	(365,501)	(1,130,231)
Other Item		
Write-down of inventory	-	(178,469)
Net Loss for the Year	(365,501)	(1,308,700)
Deficit - Beginning of Year, as previously reported	(5,662,219)	(4,353,519)
Adjustment to reflect change in accounting for employee stock options (Note2(m))	(18,855)	
Deficit - Beginning of Year, restated	(5,681,074)	
Deficit - End of Year	(6,046,575)	(5,662,219)
Net Loss Per Share – Basic and Diluted	(0.01)	(0.04)
Weighted Average Shares Outstanding	34,151,496	29,914,000

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Years Ended October 31, 2005 and 2004

	2005	2004
	\$	\$
Revenues		
Sale of prepaid telecommunication services	38,249,136	21,295,350
Systems and parts sales	76,109	322,983
License and engineering	28,790	123,488
	<hr/>	<hr/>
	38,354,035	21,741,821
Direct Costs		
Commissions	603,827	350,242
Direct labour	176,745	167,003
Foreign exchange loss (gain)	10,280	(3,321)
Freight, shipping, customs and postage	53,148	20,754
Prepaid telecommunication purchases, net rebates	35,906,287	20,407,835
Subcontract and miscellaneous	56,303	27,468
	<hr/>	<hr/>
	36,806,590	20,969,981
General and Administrative Expenses		
Accounting, legal and regulatory fees	68,266	106,791
Amortization of deferred finance charges	15,856	15,856
Amortization of property, plant and equipment	131,461	93,054
Bad debts	10,526	2,173
Bank charges and interest	19,482	22,086
Computer	17,883	24,224
Interest on long-term debt	56,061	62,260
Investor relations	40,010	36,522
Office and miscellaneous	105,175	124,905
Rent and utilities [Note 7]	102,086	147,687
Salaries and benefits	666,786	684,059
Salaries and benefits – stock based compensation [Note 6]	108,259	-
Directors Fees – stock based compensation [Note 6]	18,181	-
Telecommunications	107,017	102,044
Travel and promotion	37,671	21,892
Less: gain on disposal of property, plant and equipment	-	(2,447)
	<hr/>	<hr/>
	1,504,720	1,441,106
Product Development Expenses		
Wages and benefits	267,175	274,733
	<hr/>	<hr/>
	267,175	274,733
Selling and Marketing Expenses		
Advertising, promotion and trade shows	24,438	27,053
Travel	107,351	143,371
Wages and benefits	9,262	11,958
Write-down of demonstration inventory	-	3,850
	<hr/>	<hr/>
	141,051	186,232

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2005 and 2004

	2005	2004
	\$	\$
Operating Activities		
Net loss for the year	(365,501)	(1,308,700)
Items not involving cash		
Accretion of convertible debenture to face value	6,800	6,800
Amortization of deferred finance charges	15,856	15,856
Amortization of property, plant and equipment	131,461	93,054
Stock-based compensation	126,440	-
Gain on disposal of property, plant and equipment	-	(2,447)
Write-down of inventory	-	178,469
	(84,944)	(1,016,968)
Net change in non-cash operating working capital items	(433,443)	350,954
Net Cash Provided by (Used In) Operating Activities	(518,387)	(666,014)
Financing Activities		
Issuance of convertible promissory note	-	193,500
Repayment of convertible promissory note	-	(193,500)
Repayment of long-term debt	(7,818)	(11,901)
Shares issued	-	1,224,032
Cost of issuance of shares	-	(9,548)
Warrants exercised	350,089	-
Net Cash Provided By Financing Activities	342,271	1,202,583
Investing Activities		
Proceeds on disposal of property, plant and equipment		7,905
Purchase of property, plant and equipment	(85,710)	(175,248)
Net Cash Used In Investing Activities	(85,710)	(167,343)
Net Increase (Decrease) in Cash and Cash Equivalents	(261,826)	369,226
Cash and Cash Equivalents - Beginning of Year	508,443	139,217
Cash and Cash Equivalents - End of Year	246,617	508,443
Non-Cash Financing Activities		
Issuance of 529,547 common shares for finders' fees	-	79,432
Supplemental Disclosures		
Interest paid	56,061	55,460
Income taxes paid	-	-

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

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 its wholly-owned subsidiaries, Now Prepay Corp.(Canada), VendTek Systems Technologies (Beijing) Co., Ltd., and VendTek Systems Asia Pacific (Singapore) Pte. Ltd.

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.

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 using e-Fresh to distribute cellular and long distance products. 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. Now Prepay is currently generating the majority of VendTek's revenues. 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 \$948,263 and a capital deficiency of \$711,663 at October 31, 2005. The continued operations of the Company are dependent on its ability to generate future profitable operations and obtain additional financing as needed to provide working capital.

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 actual purchase cost or net realizable value.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

2. Summary of Significant Accounting Policies (continued)

e) Property, plant and equipment

Property, plant and equipment are 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 October 31, 2005, no impairment losses have been recorded.

h) Foreign currency translation

The functional 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 Years Ended October 31, 2005 and 2004

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 financing costs

The Company accounts for the direct costs of corporate financing 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 straight-line 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 and customer deposits 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

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 October 31, 2005, 33% (2004 – 30%) of the Company's accounts receivable is with one customer. The Company performs ongoing credit evaluations, generally does not require collateral and establishes an allowance for doubtful accounts 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 Years Ended October 31, 2005 and 2004

2. Summary of Significant Accounting Policies (continued)

l) Revenue recognition

The Company's revenue is comprised of four sources: systems and parts sales, license and engineering revenue, commission 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 telecommunication services – sales where the Company incurs 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 the gross basis with the cost of inventory recorded as direct costs because of the risk of carrying inventory.

- m) The resale of prepaid telecommunication services – sales 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 the net basis and account for \$424,370 of revenue in 2005. Stock-based compensation

Effective January 1, 2002, the Company applied the fair value based method of accounting prescribed by CICA Handbook Section 3870, Stock-based Compensation and Other Stock based Payments, only to employee stock appreciation rights, and applied the settlement method of accounting to employee stock options. Under the settlement method, any consideration paid by employees on the exercise of stock options or purchase of stock is credited to share capital and no compensation expense was recognized.

The CICA Accounting Standards Board amended CICA Handbook Section 3870 – Stock-based Compensation and Other Stock-based Payments – to require entities to account for employee stock options using the fair value based method, beginning January 1, 2004. Under the fair value based method, compensation cost is measured at fair value at the date of grant and expensed over the award's vesting period. In accordance with one of the transitional options permitted under amended Section 3870, the Company has retroactively applied the fair value based method to all employee stock options granted or repriced on or after January 1, 2002. This resulted in an increase in the opening deficit for fiscal 2005 of \$18,855.

n) Loss per share

Basic net earnings (loss) per share are 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.

3. Inventory

	2005	2004
	\$	\$
Finished goods	928	1,541
Prepaid long distance	754,272	365,543
Raw materials	8,209	6,814
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	763,409	373,898

4. Property, Plant and Equipment and Intangible Assets

Cost	Accumulated	2005	2004
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VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

	\$	Amortization \$	Net Carrying Value \$	Net Carrying Value \$
Property, Plant and Equipment				
Computer hardware	279,280	221,991	57,289	105,711
Computer hardware under capital lease	11,694	3,509	8,185	12,494
Computer software	29,000	26,312	2,688	5,375
Equipment	216,820	92,485	124,335	95,444
Furniture and fixtures	9,855	5,201	4,654	5,818
Office equipment	17,539	10,195	7,344	5,960
	<u>564,188</u>	<u>359,693</u>	<u>204,495</u>	<u>230,802</u>
Intangible Assets				
Domain names and patent costs	71,710	50,219	21,491	26,863
	<u>71,710</u>	<u>50,219</u>	<u>21,491</u>	<u>26,863</u>

5. Long-term Debt

	2005 \$	2004 \$
Convertible Debentures – See (a) and (b) below	493,200	486,400
Capital Leases - capital lease in respect of computer equipment mature at March 2010 and bear interest at a weighted average rate of 8.4%	10,134	6,486
	<u>503,334</u>	<u>492,886</u>
Less: Current portion of long-term debt	(495,811)	(6,486)
	<u>7,523</u>	<u>486,400</u>

(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.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

5. Long-Term Debt (continued)

(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.

6. Share Capital

Authorized:

100,000,000 common shares without par value

	Number of Shares	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)
Issued at October 31, 2004	32,401,052	4,802,923
Series "A" warrants exercised	1,705,444	341,089
Series "B" warrants exercised	45,000	9,000
Issued at October 31, 2005	34,151,496	5,153,012

(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.

(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 October 31, 2005, there are no shares held in escrow.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

6. Share Capital (continued)

(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 6(a)]	8,689,758	0.20
Expired	(4,003,126)	0.17
Balance, October 31, 2004	9,888,360	0.21
Warrants exercised	(1,750,444)	0.20
Expired	(1,198,602)	0.20
Balance, October 31, 2005	6,939,314	0.20

Warrants outstanding as at October 31, 2005:

Number of warrants	Exercise Price \$	Expiry Date
3,493,469	0.20	March 25, 2006
3,445,845	0.20	April 11, 006
6,939,314		

(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 price of \$0.20.

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

	Number of shares	Weighted average exercise price \$
Outstanding, October 31, 2003	1,986,900	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	2,373,000	0.20
Forfeited	(11,000)	0.20
Outstanding, October 31, 2005	4,410,900	0.20
Exercisable at end of year	2,495,327	0.20

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

6. Share Capital (continued)

(d) Stock options (continued)

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

Exercise price \$	Number Outstanding	Outstanding		Exercisable	
		Weighted average remaining contractual life (years)	Weighted average exercise price \$	Number Exercisable	Weighted average exercise price \$
0.20	4,410,900	3.7	0.20	2,495,347	0.20

The weighted average grant date fair value of options granted during 2005 was \$0.02 (2004 - \$0.01). 2,373,000 options were granted at a fair value of \$401,855 in the year ended October 31, 2005; of which \$86,480 vested in the year ended October 31, 2005.

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:

	2005	2004
Interest rate	3.90%	4.04%
Expected life (in years)	5	5
Expected volatility	123%	30%

7. Related Party Transactions

The Company paid rent of \$50,753 (2004- \$78,538) to a company in which a director has a minority interest. The Company's premises lease with the related company 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.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

8. 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.

	VendTek Systems Inc.			
	Canada (Now Prepay Corp.)	Canada (VSI & VTI)	Asia (VST & VAP)	Total
	\$	\$	\$	\$
2005				
Revenue	38,286,034	41,446	26,555	38,354,035
Amortization	70,091	61,370		131,461
Segment operating income (loss)	344,422	(551,818)	(158,105)	(365,501)
Segment assets	2,126,336	282,341	48,114	2,456,791
2004				
Revenue	21,487,223	175,470	79,128	21,741,821
Amortization	11,084	79,296	2,674	93,054
Write-down of inventory	–	178,469		178,469
Segment operating (loss)	(426,410)	(773,294)	(108,996)	(1,308,700)
Segment assets	1,384,751	362,933	51,281	1,798,965

9. Economic Dependence

The Company had one customer that accounted for 33% (2004 – 30%) of total revenue.

10. Income Taxes

Income taxes attributable to loss in these financial statements differ from amounts computed by applying the Canadian federal and provincial statutory rate of 35.62% (2004 – 37.62%) as follows:

	2005	2004
Expected tax recovery	\$ 90,000	\$ 434,000
Tax effect of:		
Permanent differences and other	(1,803,000)	(21,000)
Change in valuation allowance	(1,713,000)	(413,000)
	\$ –	\$ –

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

For the Years Ended October 31, 2005 and 2004

10. Income Taxes (continued)

The tax effect of the significant temporary differences that comprise future tax assets and liabilities are as follows:

	2004	2003
Future income tax assets:		
Property, plant and equipment	\$ 40,000	\$ 28,000
Intangible assets	-	7,000
Non-capital loss carryforwards	258,000	1,976,000
Discretionary deductions	484,000	484,000
Total gross future income tax assets	782,000	2,495,000
Valuation allowance	(782,000)	(2,495,000)

As at October 31, 2005, the Company and its Canadian subsidiaries have combined non-capital losses carried forward of approximately \$726,237, which are available to offset taxable income earned in Canada. These losses have a carry forward period of up to 10 years. The Company and its' Canadian subsidiaries have combined net capital losses of \$2,181,427, which are available to offset future taxable capital gains. In addition, that Company has discretionary deductions amounting to \$1,360,514, which are available to offset future taxable income. The net capital losses and discretionary deductions have an indefinite carry forward period.

In assessing the of future tax assets, management considers whether it is more likely than not that some portion or 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 the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.