

**VendTek Systems Inc.**  
Consolidated Financial Statements  
For the Three Months Ended  
January 31, 2006 and 2005

# VendTek Systems Inc.

## Consolidated Balance Sheets

	January 31, 2006 \$ (unaudited)	October 31, 2005 \$ (audited)
<b>Assets</b>		
<b>Current Assets</b>		
Cash	1,167,266	246,616
Accounts receivable	410,106	1,198,892
Inventory [Note 3]	586,569	763,409
Prepaid expenses and deposits	6,831	4,722
	<hr/>	<hr/>
	2,170,772	2,213,639
Property and Equipment [Note 4]	321,870	204,495
Intangible Assets [Note 4]	20,416	21,491
Deferred Financing Costs [Note 5]	13,202	17,166
	<hr/>	<hr/>
	2,526,260	2,456,791
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	2,572,136	2,665,120
Current portion of long-term debt [Note 5]	497,004	495,811
	<hr/>	<hr/>
	3,069,140	3,161,902
Long-term Debt [Note 5]	7,570	7,523
	<hr/>	<hr/>
	3,076,710	3,168,454
<b>Shareholders' Deficit</b>		
Share Capital [Note 6]	5,156,012	5,153,012
Contributed Surplus	212,267	147,900
Equity Portion of Convertible Debt [Note 5]	34,000	34,000
Deficit	(5,952,729)	(6,046,575)
	<hr/>	<hr/>
	(550,450)	(711,663)
	<hr/>	<hr/>
	2,526,260	2,456,791

(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 Three Months Ended January 31, 2006 and 2005  
(unaudited)

	2006 \$	2005 \$
Revenue [Schedule]	12,824,090	7,569,908
Direct Costs [Schedule]	12,107,695	7,339,885
Gross Profit	716,395	230,023
Expenses [Schedule]		
General and administrative	487,322	337,068
Engineering development	72,388	60,747
Selling and marketing	62,839	15,090
	622,549	412,905
Net Income (Loss)	93,846	(182,882)
Deficit – Beginning of Period	(6,046,575)	(5,662,219)
Deficit - End of Period	(5,952,729)	(5,845,101)
Net Income (Loss) Per Share – Basic and Diluted	–	(0.01)
Weighted Average Shares Outstanding	34,151,000	32,000,000

(See accompanying notes to the consolidated financial statements)

## VendTek Systems Inc.

### Consolidated Statements of Operations Schedules

For the Three Months Ended January 31, 2006 and 2005

(unaudited)

	2006 \$	2005 \$
Revenue		
License and engineering	32,793	3,846
Pre-paid pin gross revenue	12,725,669	7,541,098
Systems and parts sales	65,628	24,964
	<hr/> 12,824,090	<hr/> 7,569,908
Direct Costs		
Commissions	207,191	116,697
Direct labour	58,751	33,613
Foreign exchange	2,950	319
Freight, shipping and customs	14,399	3,220
Purchases, net rebates	11,781,332	7,191,834
Subcontract and miscellaneous	43,071	(5,798)
	<hr/> 12,107,695	<hr/> 7,339,885
General and Administrative Expenses		
Accounting, legal and regulatory fees	11,178	14,925
Amortization of deferred finance charges	3,964	3,964
Amortization of intangible assets	1,075	1,320
Amortization of property, plant and equipment	35,112	25,318
Bad debts	-	4,213
Bank charges and interest	4,258	3,310
Computer	6,350	2,603
Interest on long-term debt	14,253	15,615
Investor relations	15,498	5,856
Office and miscellaneous	41,223	30,493
Rent and utilities [Note 9]	34,852	28,400
Salaries and benefits	206,284	166,952
Stock-based compensation	66,972	3,336
Telecommunications	36,857	22,591
Travel and promotion	9,446	8,172
	<hr/> 487,322	<hr/> 337,068
Engineering Expenses		
Wages and benefits	72,388	60,747
Selling and Marketing Expenses		
Advertising, promotion and trade shows	2,071	4,490
Travel	34,841	7,897
Wages and benefits	25,927	2,703
	<hr/> 62,839	<hr/> 15,090

(See accompanying notes to the consolidated financial statements)

# VendTek Systems Inc.

## Consolidated Statements of Cash Flows

For the Three Months Ended January 31, 2006 and 2005

(unaudited)

	2006	2005
	\$	\$
<b>Operating Activities</b>		
Net income	93,846	(182,882)
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	1,075	1,320
Amortization of property and equipment	35,112	25,318
Stock-based compensation	66,972	3,336
Changes in non-cash operating working capital items		
Accounts receivable	788,786	461,329
Inventory	176,840	41,019
Prepaid expenses and deposits	(2,109)	(2,058)
Accounts payable and accrued liabilities	(92,984)	(28,795)
<b>Cash Provided By Operating Activities</b>	<b>1,073,202</b>	<b>324,251</b>
<b>Financing Activities</b>		
Repayment of capital lease obligations	(460)	(1,675)
Proceeds from warrants exercised	3,000	
<b>Cash Provided By Financing Activities</b>	<b>2,540</b>	<b>(1,675)</b>
<b>Investing Activities</b>		
Purchase of property and equipment	(150,200)	(23,155)
<b>Cash Used In Investing Activities</b>	<b>(150,200)</b>	<b>(23,155)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>(4,892)</b>	<b>—</b>
<b>Increase in Cash</b>	<b>920,650</b>	<b>299,421</b>
<b>Cash - Beginning of Period</b>	<b>246,616</b>	<b>508,443</b>
<b>Cash - End of Period</b>	<b>1,167,266</b>	<b>807,864</b>
<b>Non-cash Investing and Financing Activities</b>	<b>—</b>	<b>—</b>
<b>Supplemental Disclosures</b>		
Interest paid	14,050	15,615
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, 2006 and 2005

(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 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 \$898,368, and a capital deficiency of \$550,450 at January 31, 2006. The continued operations of the Company are dependent on its ability to generate future profitable operations and obtaining 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 Three Months Ended January 31, 2006 and 2005

(unaudited)

### 2. Summary of Significant Accounting Policies (continued)

#### e) Property and equipment

Property 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 January 31, 2006, 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 Three Months Ended January 31, 2006 and 2005

(unaudited)

### 2. Summary of Significant Accounting Policies (continued)

#### i) Income taxes (continued)

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, 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

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, 2006, 25% (2005 – 31%) 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 Three Months Ended January 31, 2006 and 2005

(unaudited)

### 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.

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 a net basis and account for \$50,318 of revenue in the first three months of fiscal 2006.

#### m) 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.

#### 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 is the same since the exercise of warrants or options or the conversion of convertible securities would reduce the loss per share.

### 3. Inventory

	January 31, 2006	October 31, 2005
	\$	\$
Finished goods	928	928
Prepaid long distance	578,270	754,272
Raw materials	7,371	8,209
	<hr/>	<hr/>
	586,569	763,409

# VendTek Systems Inc.

## Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2006 and 2005

(unaudited)

### 4. Property and Equipment and Intangible Assets

	Cost \$	Accumulated Amortization \$	January 31, 2006 Net Carrying Value \$	October 31, 2005 Net Carrying Value \$
Property and Equipment				
Computer hardware	321,480	239,041	82,439	57,289
Computer hardware under capital lease	11,694	3,728	7,966	8,185
Computer software	29,000	26,639	2,361	2,688
Equipment	324,820	107,082	217,738	124,335
Furniture and fixtures	9,855	5,433	4,422	4,654
Office equipment	17,539	10,595	6,944	7,344
	<hr/> 714,388	<hr/> 392,518	<hr/> 321,870	<hr/> 204,495
Intangible Assets				
Domain names and patent costs	71,710	51,294	20,416	21,491

### 5. Long-term Debt

	January 31, 2006 \$	October 31, 2005 \$
Convertible Debentures – See below	494,900	493,200
Capital Leases - capital leases in respect of computer equipment mature in March 2010 and bears interest at a weighted average rate of 8.4%	9,674	10,134
	<hr/> 504,574	<hr/> 503,334
Less: Current portion of long-term debt	(497,004)	(495,811)
	<hr/> 7,573	<hr/> 7,523

#### 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 being amortized to operations over the five-year term. The debentures attract interest at a rate of 9½% per annum and mature on 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 Three Months Ended January 31, 2006 and 2005

(unaudited)

### 6. Share Capital

Authorized:

100,000,000 common shares without par value

	Number of Shares	Value \$
Issued at October 31, 2004	32,401,052	4,802,923
Warrants exercised	1,750,444	350,089
Issued at October 31, 2005	34,151,496	5,153,012
Warrants exercised	15,000	3,000
Issued at January 31, 2006	34,166,496	5,156,012

### 7. Share Purchase Warrants

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

	Number of shares	Weighted average exercise price \$
Balance, October 31, 2004	9,888,360	0.20
Warrants exercised	(1,750,444)	0.20
Expired	(1,198,602)	0.20
Balance, October 31, 2005	6,939,314	0.20
Warrants exercised	(15,000)	0.20
Balance, January 31, 2006	6,924,314	0.20

Warrants outstanding as at January 31, 2006:

Number of warrants	Exercise Price \$	Expiry Date
3,478,469	0.20	March 25, 2006
3,445,845	0.20	April 11, 2006
6,924,314		

# VendTek Systems Inc.

## Notes to the Consolidated Financial Statements

For the Three Months Ended January 31, 2006 and 2005

(unaudited)

### 8. 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 an 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, 2004	2,048,900	0.20
Granted	2,373,000	0.20
Forfeited	(11,000)	0.20
Outstanding, October 31, 2005 and January 31, 2006	4,410,900	0.20
Exercisable at end of period	2,890,827	0.20

### 9. Related Party Transactions

The Company paid rent of \$18,468 (2005 in \$16,824) to a company in which a director has a minority interest. The Company's premises lease with this 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.

### 10. 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 \$	\$	\$
<b>Q1 2006</b>					
Revenue	12,733,736	83,385	12,817,121	6,969	12,824,090
Amortization	21,578	13,157	34,735	1,452	36,187
Segment operating income (loss)	278,195	(147,363)	130,832	(36,986)	93,846
Segment assets	147,975	149,156	297,131	45,155	342,286
<b>Q1 2005</b>					
Revenue	7,549,233	15,361	7,564,594	5,314	7,569,908
Amortization	11,757	18,108	29,865	737	30,602
Segment operating loss	(45,129)	(100,931)	(146,150)	(33,394)	(179,544)
Segment assets	1,330,214	199,817	1,530,031	57,988	1,588,019

### 11. Economic Dependence

The Company had one customer that accounted for 25% (2005 – 31%) of total revenues.