

VendTek Systems Inc.

**Management's Discussion and Analysis of Financial Condition and Results of Operations
March 28, 2006**

For the Three Month Period Ended January 31, 2006

The following MD&A has been prepared to help investors understand the financial performance of the Corporation and provides information that management believes is relevant to an assessment and understanding of the Corporation's risks, opportunities and performance measures. Management has prepared this document in conjunction with its broader responsibilities for the accuracy and reliability of the financial statements and the development and maintenance of appropriate internal controls in its effort to ensure that the financial information is complete and reliable.

This discussion should be read in conjunction with the audited consolidated financial statements including the notes thereto, included in this annual report. Except for statements of historical fact contained herein, the information presented constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of VendTek to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements. Actual results may differ materially from those indicated by these forward-looking statements as a result of risks and uncertainties impacting VendTek's business. Although VendTek has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be anticipated, estimated or intended. All amounts presented in this MD&A are in accordance with Canadian generally accepted accounting principles ("GAAP") and presented in Canadian dollars unless otherwise specifically noted. References herein to "VendTek", "the Corporation", "the Company", "we" and "our" mean VendTek Systems Inc.

Additional information relating to the Company is available on SEDAR at www.sedar.com.

Overview

VendTek Systems Inc. strives to provide its customers with innovative products, exceptional service and superior technical expertise while endeavouring to enhance value to our shareholders.

VendTek develops and licenses automated transaction system software and supporting technologies that improve the efficiency of product delivery, reduce costs to clients and offer superior safety measures. VendTek's business focuses primarily in the prepaid telecom and financial services industries. VendTek markets its products and services directly and through its wholly-owned subsidiaries; Now Prepay Corp. (Canada), VendTek Systems Technologies (Beijing) Co., Ltd., and VendTek Systems Asia Pacific (Singapore) Pte. Ltd.

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.

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.

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. Third party kiosks, bank machines, POS terminals, PC computers, and web browsers are all potentially suitable distribution points. Compared to the traditional method of delivering prepaid services using cards 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.

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 and cellular markets. VendTek's Chinese operations include sales and marketing, customer support and engineering. With three 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.

Revenues and Expenses

Current revenues are substantially derived from the e-Fresh™ based businesses and consist primarily of:

- virtual prepaid voucher sales revenues derived from the Now Prepay network.
- license fees from VendTek Systems China and VendTek's other customers.
- professional service fees.

It is the company's aim to increase sales through continued deployment of e-Fresh software to point-of-sale terminals through the Now Prepay network, increase the product base available to those clients and develop new international markets for the e-fresh system.

Growth Strategy

Management remains committed to developing opportunities in new markets and continuing to satisfy the increased demand in its existing client base.

Significant Accounting Policies

VendTek's financial statements are prepared in accordance with Canadian GAAP.

Revenue Recognition and Cost of Goods

VendTek's revenues are primarily generated from the resale of prepaid cellular and long distance telephone time. We recognize revenues when all of the following criteria are met:

- evidence of an agreement exists,
- delivery has occurred or services have been rendered,
- the price is fixed or determinable,
- collection is reasonably guaranteed.

Our revenue is primarily derived from the sale of prepaid telephone time for most of which the Company incurs substantial inventory risk but does not provide the related telephone service. The sale of these products, is recognized on a gross basis at the date of sale to the consumer when title to the card transfers.

The Company purchases some phone time products for resale on consignment and revenues from these sales are recognized on a net basis. The full obligation to the phone service provider is fixed and determinable and we have no significant continuing obligations.

Accounts receivable reflects the wholesale value of the virtual PINs and is collected within 10 days.

Cost of Goods consists mainly of cellular and long distance phone time. Also included are network and communication costs, expenses related to maintaining and supporting point-of-sale activation terminals and third party installation and customer service expenditures. Cost of Goods excludes amortization and is offset by amounts earned on early payments to suppliers and commissions to agents and terminal operators.

Impairment of 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 cashflows expected to result from the use of related assets. VendTek'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.

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.

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.

Income Taxes

VendTek 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.

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.

Critical Estimates

Deleted: ¶

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.

Selected Annual Information

Selected annual financial information derived from the audited consolidated financial statements for the most recently completed financial years is set forth below and is prepared in accordance with the generally accepted accounting principles in Canada:

For the years ended October 31:

	<u>2005</u> \$000	<u>2004</u> \$000	<u>2003</u> \$000
Total assets	2,457	1,799	1,192
Total long-term liabilities	8	486	486
Revenue	38,354	21,742	11,369
Net loss	366	1,308	1,429
Net loss per share ¹	(0.01)	(0.04)	(0.06)

Summary of Quarterly Results

Quarter Ended	Revenue \$	Earnings (Loss) \$	Earnings (Loss) per share ¹ \$
January 31, 2006	12,824,090	93,846	0.00
October 31, 2005	11,750,060	(65,492) ²	(0.01)
July 31, 2005	10,718,345	77,265	(0.00)
April 30, 2005	8,315,722	(194,392)	(0.01)
January 31, 2005	7,569,908	(182,882)	(0.01)
October 31, 2004	7,480,669	(560,218)	(0.01)
July 31, 2004	6,024,740	(221,882)	(0.01)
April 30, 2004	4,540,370	(268,258)	(0.01)

¹ The Company has recorded a loss, or where there has been income the earnings per share has been nil, in each quarter and since the exercise of warrants and options would reduce loss per share, basic and diluted earnings per share are the same.

² Includes non-cash year-end adjusting entries all of which are recorded in the fourth quarter 2005: consigned inventory reversal (\$191,000), stock-based compensation expense (\$126,000)

Results of Operations

Comparison of the three month period ended January 31, 2006 ("Q1 2006") compared to the three month period ended January 31, 2005 ("Q1 2005").

Note: The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Now Prepay Corp., VendTek Systems Technologies (Beijing) Co. Ltd., VendTek Systems Asia Pacific (Singapore), and VendTek Industries Inc., which owns VendTek International Inc. (an inactive U.S. company)

Revenues

For the three month period ended January 31, 2006, revenues were \$12,824,000, an increase of \$5,254,000, or 69% over the \$7,570,000 in revenues for the three month period ended January 31, 2005. The increase is primarily the result of continued growth of VendTek's subsidiary Now Prepay Corp. The ongoing installation of POS terminals across Canada for the sale of virtual prepaid telecommunications vouchers and the increase in products available for sale via electronic methods provides increased sales revenues.

Our largest customer accounted for 25% of total revenues in Q1 2006 compared to 31% for Q1 2005. We are actively seeking to expand our customer base for prepaid products to reduce the risk inherent in such a concentration.

Revenues are mostly comprised of prepaid PIN revenue, which totalled of \$12,726,000 in the first three months of 2006 compared to \$7,541,000 in the same period of 2005, an increase of 69%. License and engineering revenues increased by \$29,000 to \$33,000 in Q1 2006 compared to \$4,000 in Q1 2005. This increase of 700% was due to specialized engineering services being required by a customer as well as software licenses issued for a new customer. Systems and parts sales of \$66,000 in the quarter, compared to \$25,000 in the same period of 2005, are up by 164% because of increased parts orders from VendTek's legacy vending machine customers and more server sales.

The consolidated gross profit for the three month period ended January 31, 2006, increased by approximately 211% to \$716,000 compared to \$230,000 in the same period of 2005. The high revenues and profits generated by Now Prepay accounted for the majority of the consolidated gross profits.

Cost of Goods

VendTek's operating expenses are broken down into the four following categories: operational costs, general and administrative, engineering and sales and marketing. Operational costs ("Cost of Goods") consist primarily of personnel and related expenses associated with ongoing operations and support of VendTek's services. General and administrative fees ("G&A") consist of personnel and related costs associated with VendTek's administrative and finance functions, as well as professional fees and other general corporate expenses. Product development expenses ("Engineering" or "PDG") consist of engineering personnel costs related to VendTek's technology development and maintenance. Sales and marketing costs consist of personnel and related costs associated with the ongoing sales and marketing functions, as well as fulfillment, advertising, trade shows and other promotional expenses.

Cost of Goods was \$12,108,000, or 94% of revenues for the quarter ended January 31, 2006, compared to \$7,340,000, or 97% of revenues for the quarter ended January 31, 2005. The low margin is indicative of the virtual prepaid telecommunications industry in which Now Prepay conducts its business. However, increased sales volumes and supplier discount options are expected to continue to improve the margin.

Our Cost of Goods consists of payments to carriers who provide cellular and long distance telephone time and various services associated with production and shipping of products, site commissions and personnel. The increase in Cost of Goods of \$4,768,000, or 65%, for Q1 2006 compared to Q1 2005 is due to the increase in revenues.

General and Administrative

The G&A expenses were \$487,000 or approximately 4% of revenues during the three months ended January 31, 2006 compared with \$337,000 or 4% of revenues, during the three months ended January 31, 2005. Salaries under G&A increased by 24% when Q1 2006 is compared to Q1 2005 due to management and administrative wage increases. Stock-based compensation is the non-cash based option expense which is allocated between salaries and director's fees and for the Q1 2006 period was \$67,000. Office, rent, computer expenses and banking fees are up from \$65,000 in Q1 2005 to \$87,000 in Q1 2006. This \$22,000 (34%) increase is due to increased activity. Interest expenses decreased by \$2,000, or 12%, to \$14,000 in Q1 2006 from \$16,000 in Q1 2005.

Telecommunication costs increased in Q1 2006 by \$14,000 (63%) to \$37,000 compared to \$23,000 in Q1 2005. This is due to increased call volume associated with Now Prepay sales. In Q1 2006 investor relation expenses were \$15,000, an increase of \$9,000 (164%) when compared to the Q1 2005 expenses of \$6,000.

Amortization expense increased to \$40,000 for the three months ended January 31, 2006, compared to \$31,000 the three months ended January 31, 2005 (\$9,000 or 29%). The increase is due to our increased acquisitions of point-of-sale terminals which are depreciated on a straight-line basis over three years.

Product Development

Engineering costs for the three month period ending January 31, 2006 consist of personnel expenses of \$72,000, or approximately 0.60% of revenues, compared with \$61,000 or approximately 0.80% in the three month period ending January 31, 2005. The increase of the expense is attributed to wage increases for personnel and increased use of contract labour.

Sales and Marketing

Sales and marketing expenses increased in Q1 2006 by \$48,000 (315%) to \$63,000 compared to the Q1 2005 expense of \$15,000. Expenses for the three month period ended January 31, 2006 and the three month period ended January 31, 2005 were both less than 1% of revenues. The increase in expense is attributed to a reallocation of wages from G&A to Sales (Q1 2006 - \$26,000, Q1 2005 - \$3,000) and increased travel (Q1 2006 - \$35,000, Q1 2005 - \$8,000). There was a reduction in trade show costs of \$2,000 in Q1 2006 to \$2,000 compared to Q1 2005 expense of \$4,000.

Net Income

Net income for the three months ended January 31, 2006 was \$94,000 compared with the three months ended January 31, 2005 net loss of \$183,000. This 151% increase was due to the growth of virtual PIN telecommunication sales and supplier offered discounts and rebates. The earnings are offset by increased salaries and stock-based option expenses, telecommunication, office and amortization. The net income per share for Q1 2006 increased to \$0.00 compared to (\$0.01) for Q1 2005.

In the first quarter of fiscal 2006 the Company recognized the fair value of vested stock options resulted in an increase in the stock-based compensation expense to \$67,000 in Q1 2006 compared to \$3,000 in Q1 2005. There are no other changes in results of operations and elements of income that are not related to ongoing business operations nor are there any seasonal aspects of the Company's business that affect its financial condition, results of operations or cash flows.

Revenues continue to grow every quarter. Q1 2006 revenues were 9% higher than Q4 2005. Management expects this trend to continue and revenues surpassing fiscal year end 2005 are expected in fiscal 2006. With increased revenues we do expect increased costs. Telecommunication, office, amortization and personnel costs for fiscal 2006 are expected to be more than at year end 2005 however some of these expenses will be offset by supplier discounts and rebates and a reduction in rent and other expenses.

Liquidity and Capital Resources

As of January 31, 2006, VendTek had a working capital deficiency of \$898,000 compared to \$948,000 as of October 31, 2005. 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, 2006 \$	October 31, 2005 \$
Convertible Debentures	494,900	493,200
Capital Leases - capital leases in respect of computer equipment mature at varying dates from 2005 to 2010 and bear interest at a weighted-average rate of 8.4%	9,674	10,134
	504,574	503,334
<u>Less: Current portion of long-term debt</u>	<u>(497,004)</u>	<u>(495,811)</u>
	<u>7,573</u>	<u>7,523</u>

Convertible Debentures

On November 29, 2001, the Company completed a convertible debenture financing. The Company received gross proceeds of \$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 and charged to operations over the five-year term. The debentures bear interest at a rate of 9½% per annum, which is paid quarterly, 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.

As at January 31, 2006, the Company had 34,166,496 common shares issued and outstanding.

Summary of Options Granted

VendTek 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.

	Number of shares	Weighted average exercise price \$
Outstanding, October 31, 2005 and January 31, 2006	4,410,900	0.20
Exercisable at end of period	2,890,827	0.20

Summary of Warrants

	Number of shares	Weighted average exercise price \$
Balance, October 31, 2004	9,888,360	0.21
Exercised	(1,750,444)	0.20
Expired	(1,198,602)	0.20
Balance, October 31, 2005	6,939,314	0.20
Exercised	(15,000)	0.20
Balance at January 31, 2006	6,924,314	0.20

Related Party Transactions

During the three month period ended January 31, 2006, the Company paid rent of \$18,468 (2005 - \$16,824) 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 an unrelated third party.

Off-Balance Sheet Arrangements

VendTek does not have any off-balance sheet arrangements.

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.