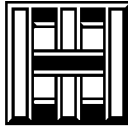


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Consolidated Financial Statements
For the Three Months Ended
January 31, 2003 and 2002
(unaudited - see Notice to Reader)





MANNING ELLIOTT
CHARTERED ACCOUNTANTS

11th floor, 1050 West Pender Street, Vancouver, BC, Canada V6E 3S7

Phone: 604. 714. 3600 Fax: 604. 714. 3669 Web: manningelliott.com

Notice to Reader

We have compiled the consolidated balance sheets of VendTek Systems Inc. as at January 31, 2003 and 2002 and the statements of operations and deficit, operations schedules, and cash flows for the three months then ended from information provided by management. We have not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information. Readers are cautioned that these statements may not be appropriate for their purposes.

Chartered Accountants

Vancouver, Canada

February 28, 2003

VendTek Systems Inc.

Consolidated Balance Sheets

| | January 31, 2003 \$ (unaudited) | October 31, 2002 \$ (audited) |
|---|--|--|
| Assets | | |
| Current Assets | | |
| Cash and equivalents | 219,213 | 409,570 |
| Accounts receivable | 575,292 | 664,563 |
| Inventory | 656,712 | 596,394 |
| Prepaid expenses | — | 5,500 |
| | <hr/> | <hr/> |
| | 1,451,217 | 1,676,027 |
| Property, Plant and Equipment | 181,375 | 192,260 |
| Deferred Finance and Acquisition Costs <i>[Note 3[b]]</i> | 60,770 | 64,734 |
| | <hr/> | <hr/> |
| | 1,693,362 | 1,933,021 |
| Liabilities | | |
| Current Liabilities | | |
| Accounts payable and accrued liabilities | 773,932 | 792,359 |
| Customer deposits | 15,997 | 35,636 |
| Current portion of long-term debt <i>[Note 3]</i> | 25,451 | 25,451 |
| | <hr/> | <hr/> |
| | 815,380 | 853,446 |
| Long-Term Debt <i>[Note 3]</i> | 487,778 | 491,187 |
| | <hr/> | <hr/> |
| | 1,303,158 | 1,344,633 |
| Shareholders' Equity | | |
| Capital Stock <i>[Note 4]</i> | 3,588,439 | 3,479,639 |
| Equity Portion of Convertible Debt <i>[Note 3[b]]</i> | 34,000 | 34,000 |
| Deficit | (3,232,235) | (2,925,251) |
| | <hr/> | <hr/> |
| | 390,204 | 588,388 |
| | <hr/> | <hr/> |
| | 1,693,362 | 1,933,021 |

(See accompanying notes to consolidated financial statements)

Approved on Behalf of the Board:

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

/s/ "Douglas Buchanan"
Douglas Buchanan, Director

VendTek Systems Inc.

Consolidated Statements of Operations and Deficit

For the Three Months Ended January 31, 2003 and 2002

(Unaudited – see Notice to Reader)

| | 2003 | 2002 |
|--|--------------------|--------------------|
| | \$ | \$ |
| Revenue <i>[Schedule]</i> | 2,207,833 | 366,406 |
| <u>Direct Costs <i>[Schedule]</i></u> | <u>2,147,544</u> | <u>276,481</u> |
| Gross Profit | 60,289 | 89,925 |
| Expenses <i>[Schedule]</i> | | |
| General and administrative | 252,455 | 202,607 |
| Product development | 74,018 | 77,841 |
| Selling and marketing | 40,800 | 36,972 |
| | <u>367,273</u> | <u>317,420</u> |
| Net Loss For the Period | (306,984) | (227,495) |
| Deficit - Beginning of Period | (2,925,251) | (2,033,960) |
| Deficit - End of Period | <u>(3,232,235)</u> | <u>(2,261,455)</u> |
| Loss Per Share - Basic and Fully Diluted | (0.01) | (0.02) |

(See accompanying notes to consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Three Months Ended January 31, 2003 and 2002

(Unaudited – see Notice to Reader)

| | 2003 | 2002 |
|---|-----------|----------|
| | \$ | \$ |
| Revenue | | |
| Systems and parts | 44,024 | 175,517 |
| License and engineering | 87,871 | 45,266 |
| Pre-paid PIN | 2,049,406 | 145,623 |
| Commission | 26,532 | – |
| | <hr/> | <hr/> |
| | 2,207,833 | 366,406 |
| Direct Costs | | |
| Direct labour | 71,772 | 38,175 |
| Freight, shipping and customs | 3,120 | 2,602 |
| Subcontract and miscellaneous | 77 | 1,582 |
| Purchases (net of opening and closing inventory) | 2,072,575 | 209,122 |
| Inventory obsolescence | – | 25,000 |
| | <hr/> | <hr/> |
| | 2,147,544 | 276,481 |
| General and Administrative Expenses | | |
| Accounting, legal and regulatory fees | 28,316 | 15,359 |
| Amortization of property, plant and equipment | 12,493 | 15,805 |
| Amortization of deferred finance costs | 3,964 | 2,278 |
| Bank charges and short-term interest | 2,330 | 5,290 |
| Computer | 3,674 | 2,584 |
| Interest on long-term debt | 16,726 | 13,782 |
| Investor relations | 8,133 | 4,451 |
| Office | 30,491 | 18,937 |
| Rent and utilities [Note 6] | 36,605 | 31,413 |
| Salaries and benefits | 65,925 | 77,505 |
| Shop supplies | 243 | 185 |
| Telecommunications | 6,568 | 7,458 |
| Travel and promotion | 36,987 | 7,616 |
| Less interest and other income | – | (56) |
| | <hr/> | <hr/> |
| | 252,455 | 202,607 |
| Product Development Expenses | | |
| Materials and write down of development inventory | 161 | 892 |
| Wages and benefits | 73,857 | 89,689 |
| SR&ED tax credit | – | (12,740) |
| | <hr/> | <hr/> |
| | 74,018 | 77,841 |
| Selling and Marketing Expenses | | |
| Advertising, promotion and trade shows | – | 278 |
| Travel | – | 7,673 |
| Wages and benefits | 40,800 | 29,021 |
| | <hr/> | <hr/> |
| | 40,800 | 36,972 |

(See accompanying notes to consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Three Months Ended January 31, 2003 and 2002

| | 2003 | 2002 |
|--|------------------|------------------|
| | \$ | \$ |
| Operating Activities | | |
| Net loss for the period | (306,984) | (227,495) |
| Items not involving cash | | |
| Accretion of convertible debenture to face value | 1,700 | 1,700 |
| Amortization of property, plant and equipment | 12,493 | 15,805 |
| Amortization of deferred finance charges | 3,964 | 2,278 |
| Net change in non-cash working capital items | (3,613) | (19,960) |
| Cash To Operating Activities | (292,440) | (227,672) |
| Financing Activities | | |
| Issuance of convertible debentures | — | 500,000 |
| Issuance of shares | 120,000 | — |
| Financing costs deferred | — | (43,000) |
| Non-refundable deposits on proposed business combination | — | 75,000 |
| Refundable deposits on proposed business combination | — | 225,000 |
| Business acquisition costs | — | (42,907) |
| Costs of share issuances | (11,200) | (5,000) |
| Related party amounts | — | 714 |
| Repayment of capital lease obligations | (5,109) | (7,464) |
| | 103,691 | 702,343 |
| Investing Activities | | |
| Purchase of tangible assets | (243) | (5,383) |
| Purchase of domain names and patent costs | (1,365) | (1,653) |
| | (1,608) | (7,036) |
| Increase (Decrease) in Cash During the Period | (190,357) | 467,635 |
| Cash (Deficiency) - Beginning of Period | 409,570 | (188,692) |
| Cash - End of Period | 219,213 | 278,943 |
| Non-Cash Financing Activities | | |
| Issuance of 992,425 common shares to purchase all of the preferred shares and to settle the unpaid dividends owing of \$95,833 | — | 272,916 |
| Supplemental Disclosures | | |
| Cash paid – Income tax | — | — |
| Cash paid – Interest | 310 | 12,124 |

(See accompanying notes to consolidated financial statements)

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

1. Nature of Operations

VendTek Systems Inc. (the "Company"), through its wholly-owned operating subsidiaries VendTek Industries Inc. and Now Prepay Corp., based in Port Coquitlam, British Columbia, Canada and VendTek Systems Technologies (Beijing) Co., Ltd., which is based in Beijing, China specializes in developing and licensing automated transaction systems, network and host system software, and electronic vending system solutions for major Canadian, US and international corporations. The Company has produced solutions for companies in the prepaid long distance, smart card, lottery, postal, transit and prepaid cellular industries.

2. Summary of Significant Accounting Policies

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 China subsidiary, VendTek Systems Technologies (Beijing) Co., Ltd.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, particularly the recoverability of accounts receivable, property, plant and equipment and other long-term assets, and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from the estimates.

Interim financial statements

These interim unaudited financial statements have been prepared on the same basis as the annual financial statements and in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, necessary to present fairly the Company's financial position, results of operations and cash flows for the periods shown. The results of operations for such periods are not necessarily indicative of the results expected for a full year or for any future period.

3. Long-Term Debt

| | January 31, 2003 \$ (unaudited) | October 31, 2002 \$ (audited) |
|--|--|--|
| Convertible Debentures – See (b) below | 474,500 | 472,800 |
| 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% | 38,729 | 43,838 |
| | 513,229 | 516,638 |
| Less: Current portion of capital leases | (25,451) | (25,451) |
| | 487,778 | 491,187 |

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

3. Long-Term Debt (continued)

(a) Principal repayments over the next three fiscal years with respect to capital leases are as follows:

| | |
|------|---------------|
| | \$ |
| 2003 | 20,342 |
| 2004 | 11,460 |
| 2005 | 6,927 |
| | <u>38,729</u> |

(b) 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, have been deferred and are being amortized to operations over the five-year term. The debentures attract interest at a rate of 9½% and mature June 30, 2006. These debentures are convertible, at the option of the holder, into common shares at the following rates:

- i) January 1, 2003 to June 30, 2003 - \$1.50 per share
- ii) July 1, 2003 to June 30, 2004 - \$3.00 per share
- iii) July 1, 2004 to June 30, 2005 - \$4.00 per share
- iv) July 1, 2005 to June 30, 06 - \$5.00 per share

The estimated equity value of the conversion feature of the debentures of \$34,000 has been 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 is 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.

4. Capital Stock

Authorized:

100,000,000 common shares without par value

| | # | Value \$ |
|---|-------------------|------------------|
| Issued at October 31, 2002 (audited) | 22,711,294 | 3,479,639 |
| Issued for cash pursuant to a private placement | 1,000,000 | 120,000 |
| Less costs of share issuances | - | (11,200) |
| Issued at January 31, 2003 (unaudited) | <u>23,711,294</u> | <u>3,588,439</u> |

(a) Escrow shares

2,000,000 shares held in escrow were all 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 leaving 1,000,000 shares in the earn-out pool.

As at January 31, 2003 there are 1,349,850 shares held in escrow.

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

4. Capital Stock (continued)

(b) Warrants outstanding as at January 31, 2003 (unaudited):

| # | Price \$ | Expiry Date |
|------------------|-------------|------------------|
| 93,126 | 0.87 | July 1, 2004 |
| 3,000,000 | 0.15 | October 10, 2004 |
| 910,000 | 0.15 | October 30, 2004 |
| 73,602 | 0.54 | November 9, 2004 |
| 125,000 | 0.40 | November 9, 2004 |
| 1,000,000 | 0.15 | December 5, 2004 |
| <u>5,201,728</u> | | |

(c) Stock options outstanding as at January 31, 2003:

| October 31, 2002 # (audited) | Price \$ | Granted # | Exercised # | Cancelled # | January 31, 2003 # (unaudited) | Expiry Date |
|---------------------------------------|-------------|--------------|----------------|----------------|---|--------------------|
| 575,350 | 0.20 | — | — | — | 575,350 | October 5, 2004 |
| 6,000 | 0.20 | — | — | — | 6,000 | March 29, 2005 |
| 5,000 | 0.20 | — | — | — | 5,000 | August 21, 2005 |
| 441,200 | 0.20 | — | — | — | 441,200 | April 10, 2006 |
| 100,000 | 0.20 | — | — | — | 100,000 | November 22, 2006 |
| 200,000 | 0.20 | — | — | — | 200,000 | January 16, 2007 |
| 200,000 | 0.20 | — | — | 100,000 | 100,000 | September 18, 2007 |
| <u>1,527,550</u> | | — | — | 100,000 | <u>1,427,550</u> | |

5. Related Party Transactions

Included in the net loss for the quarter is rent of \$18,388 (2002: \$21,960) paid to a company in which a director has a minority interest. The Company's premises lease with the related company expired October 31, 2001 and is currently on a month-to-month basis.

6. Segmented Information

The Company operates in one industry (see Note 1) and two geographic segments, being Canada and China.

(a) Segmented Information

| | Canada \$ | China \$ | Total \$ |
|---------------------|--------------|-------------|-------------|
| Revenue | 2,181,301 | 26,532 | 2,207,833 |
| Gross Profit | 33,757 | 26,532 | 60,289 |
| Net Loss | (297,223) | (9,761) | (306,984) |
| Identifiable Assets | 1,536,359 | 157,003 | 1,693,362 |

VendTek Systems Inc.

Notes to the Consolidated Financial Statements

6. Segmented Information (continued)

(b) Export Sales

The Company's export sales from Canada were 4% (2002 - 45%) of total Canadian sales to US customers. Canadian pre-paid wireless pin gross revenues were 96% of total Canadian sales.

(c) Product Development

\$74,000 was charged to operations as product development expenses for the e-Fresh electronic pre-paid services distribution system.

VENDTEK SYSTEMS INC.**Quarterly Report to Shareholders for the Three Months Ended January 31, 2003**

SCHEDULE "B" - SUPPLEMENTARY INFORMATION

1. See Schedule "A" where sufficient detail is included in the consolidated financial statements.
2. Included in the net loss for the quarter is rent of \$18,387 (2002 - \$21,960), paid to a company that has a minority shareholder as a director of the Company.
3. (a) Securities issued during the quarter:

| Date Issued | Type of Security | Type of Issue | Number | Price | Total Gross Proceeds | Type of Consideration | Commission Paid |
|-------------|------------------|-------------------|-----------|--------|----------------------|-----------------------|-----------------|
| Dec 6/02 | Common | Private Placement | 1,000,000 | \$0.12 | \$120,000 | Cash | \$12,000 |

(b) Options granted during the quarter: None

4. (a) See Note 5 to Schedule "A".
(b) See Note 5 to Schedule "A".
(c) See Note 5 to Schedule "A".
(d) See Note 5 to Schedule "A".

5. As at March 12, 2003:

List of Directors:

Paul Brock
Grant Shellborn
Peter Read
Doug Buchanan
Weiguo Lang
Sherri MacDonald

List of Officers:

Paul Brock – President and Chief Executive Officer
Grant Shellborn – Vice President of Product Development and Information Systems
Peter Read – Vice President of Operations
Doug Buchanan – Vice President of Sales and Marketing
Jeff Durno – Secretary

VENDTEK SYSTEMS INC.

Quarterly Report to Shareholders for the Three Months Ended January 31, 2003

SCHEDULE "C" - MANAGEMENT DISCUSSION

Note: The following management discussion has been prepared as a summary of activities for the quarter ended January 31, 2003 and of significant subsequent events to the date of this report.

NATURE OF BUSINESS

VendTek Systems Inc. ("VendTek" or the "Company"), through its wholly owned Canadian subsidiaries VendTek Industries Inc. and Now Prepay Corporation, located in Port Coquitlam, British Columbia, and Chinese subsidiary VendTek (Beijing) located in Beijing, China develops and commercializes transaction automation systems and network technologies for the electronic distribution and retailing of goods and services in a variety of markets, including prepaid cellular and long distance, smart cards, stored value accounts, money transfer and card/ticket vending. The Company utilizes proprietary and patent-pending self-serve terminals and other point of sale (POS) devices, and networking and encryption systems. The Company is also building its own electronic network of pre-paid services distribution in North America under the Now Prepay™ brand.

VendTek's primary systems product is the e-Fresh™ system. The e-Fresh™ system utilizes a proprietary network of terminals or POS devices and a central server, to provide a secure electronic distribution network for prepaid goods and services to consumers in real time. In addition to VendTek terminals, bank machines, POS terminals, 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's first e-Fresh™ product was an "ATM" style smart card load vend terminal ("LVD™") for Visa International's Visa Cash™ smart card, operating on the T.I.B.C. 1.0 system for use in Latin America and the Caribbean. This technology platform and design has been further developed and modified for prepaid pin distribution and money transfer. In addition two other models have been developed, the Counter Top ("CT") and the "TT" (patent-pending).

The Company also builds specialized, electronic vending machines for distributing voucher, ticket and card products in the pre-paid long distance, lottery, postal and transit industries.

SIGNIFICANT EVENTS AND HIGHLIGHTS DURING THE YEAR AND TO THE DATE OF THIS REPORT

- March 6, 2003 – The Company announced that its subsidiary Now Prepay Corp. entered into a partnership with Terminal Management Concepts Ltd., a leading software application developer for Ingenico POS terminals.
- March 4, 2003 – The Company announced that its subsidiary Now Prepay Corp. ("Now Prepay") reached distribution agreements with the following providers:
 - Bell Prepaid Mobility (formerly Bell Solo)
 - Telus Pay & Talk
 - Rogers AT&T Wireless Pay as You Go
 - Fido Prepaid
 - Telus Talk and Surf (Internet, Prepaid LD, Prepaid Voice Mail)

The Company also announced that Now Prepay had developed its own "clean" prepaid long distance card. The card provides highly competitive domestic and international calling long distance rates with no connect fee, no surcharging and no maintenance fees.

- February 20, 2003 - The Company announced that it had added inventory tracking through the addition of UPC bar codes to their customer's prepaid telecom product offerings.
- February 13, 2003 - The Company announced that its subsidiary Now Prepay Corp. ("Now Prepay") entered into an agreement with Go Prepaid Inc. to distribute prepaid cellular and long distance airtime through e-Fresh equipped POS terminals.

- February 11, 2003 - The Company announced the launch of its "nowprepay.com" website and provided an updated to shareholders about the "Now Prepay" mission.
- On January 22, 2003 the Company announced that it had appointed Weiguo Lang and Sherri MacDonald to its Board of Directors.
- On January 17, 2003 the Company announced that it has entered into an agreement with HMS Consulting ("HMS") of Delta, BC to provide investor relations and corporate communications services. Compensation for the services is \$4,000.00 per month and the term of the agreement is initially for three months. VendTek's intentions are to make the investment community more aware that VendTek is rapidly commercializing its e-Fresh technology and making the transition from a vending machine manufacturer to a developer and license provider of automated retailing technology.
- On December 6, 2002 the Company announced that it had completed the private placement announced on November 26, 2002.
- On November 26, 2002 the Company announced a non-brokered private placement consisting of 1,000,000 units at a price of 12 cents per unit, for gross proceeds of \$120,000.
- On November 14, 2002 the Company announced a strategic re-evaluation of the compositional make up of its Board of Directors. Joining the Board are VendTek co-founders Doug Buchanan and Peter Read. Simultaneously, the Company has accepted the resignations of Jonathan Scott and Lynn Patterson as Directors. Further, the Company was saddened to announce the sudden passing of Lloyd Gartrell, a director of the Company. The number of seats on the Board of Directors was increased from five to seven to accommodate additional appointments of future strategic investors.
- On November 6, 2002 the Company announced that it had closed, on October 30, 2002, the third and final tranche of its non-brokered private placement for gross proceeds of \$109,200. Assuming the exercise of all issued and outstanding warrants, the new investor's holdings of the issued and outstanding common shares is: Mr. XiangBing Yan – 16.4%. These securities were acquired for investment purposes.

DISCUSSION OF OPERATIONS AND FINANCIAL CONDITION

Financial Statements

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., and VendTek Industries Inc., which owns VendTek International Inc. (a U.S. company) which is inactive.

Results of Operations for the three months ended January 31, 2003 ("2003") compared to the three months ended January 31, 2002 ("2002")

First quarter revenues rose 503% in 2003 to \$2,208,000 compared to \$366,000 for the 2002 first quarter. 2003 revenues comprise systems and parts sales of \$44,000 (2002 - \$176,000), license and engineering revenues of \$88,000 (2002 - \$45,000) and prepaid PIN revenue of \$2,049,000 (2002 - \$146,000).

The substantial rise in revenues is attributed to the launch of the Company's subsidiary Now Prepay Corp. The wholesale portion of Now Prepay's prepaid cellular business provided meaningful revenues augmented by the installation of POS terminals across Canada for the sale of virtual prepaid cellular vouchers.

Gross profit for the first quarter of 2003 was 3% reflecting the transaction based revenues on the Now Prepay revenues.

General and administration ("G&A") expenses increased \$51,000 (25%) to \$252,000 in 2003 compared to \$203,000 in 2002. Specifically, in 2003 salaries decreased \$12,000(15%) reflective of reduced staff and increased efficiencies; travel and promotion increased \$29,000 (386%), as the Company increased travel to China and across Canada in support of subsidiary set-up and development; investor relations increased \$4,000 (83%), as external services were employed in 2003; office and rent increased \$17,000 (27%) reflecting the new China office set up expenses; interest on long-term debt increased \$3,000 (21%); accounting, legal and regulatory fees increased \$13,000 (87%) due to an increase in legal fees.

Product development group expenses ("PDG") declined \$4,000 (5%) to \$74,000 in 2003 compared to \$78,000 in 2002 and decreased \$13,000 (15%) when compared to Q4 2002. Specifically, in 2003 wages declined \$16,000 (18%), as a result of the reduction in contract engineering personnel.

Selling and marketing expenses increased \$4,000 (10%) to \$41,000 in 2003 compared to \$37,000 in 2002 and decreased only \$900 (2%) when compared to Q4 2002. The increase in 2003 is attributable to the payout of vacation & severance pay liabilities as personnel were moved from VendTek Industries to VendTek Systems to better reflect the core competency and value of VSI.

Net loss for 2003 increased \$80,000 (35%) to \$307,000 (\$0.01 per share) as compared to net loss of \$227,000 (\$0.02 per share) in 2002. The increase in net loss for 2003 compared to 2002 is a result of a \$30,000 decline in gross profit due to the low margins off wholesale PINs, a continuation of slow legacy product sales, and the increase in G&A expenses as described above.

Liquidity and Capital Resources

Historically, the Company has financed its operations mainly through the sale of equity securities and also 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.

Operating Activities

The Company's operating activities used cash of \$292,000 in 2003. This is mostly comprised of a net loss of \$307,000 and addbacks of amortization. The net change in non-cash working capital items was (\$4,000).

Financing Activities

On December 6, 2002 the Company completed a non-brokered private placement consisting of 1,000,000 units at a price of 12 cents per unit, for gross proceeds of \$120,000 less \$11,000 for share issuance costs. \$5,000 was used to repay capital lease obligations.

As at January 31, 2003, the Company had working capital of \$636,000.

Investing Activities

Net cash used for investing activities was \$2,000 comprised of tangible capital purchases and web domain costs.

Investor Relations

The Company maintains its own program of investor communications, including web site, direct broker and investor contact and distribution of news through a national news wire service. On January 17, 2003 the Company announced that it has entered into an agreement with HMS Consulting ("HMS") of Delta, BC to provide investor relations and corporate communications services. Compensation for the services is \$4,000 per month and the term of the agreement is initially for three months.

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fax: 604.944.0812
www.vendteksys.com

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