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Consolidated Financial Statements
For the Three Months Ended
April 30, 2003 and 2002
(unaudited - see Notice to Reader)

vendtek

VendTek Systems Inc.

2003

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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Notice to Reader

We have compiled the consolidated balance sheets of VendTek Systems Inc. as at April 30, 2003 and 2002 and the statements of operations and deficit, operations schedules, and cash flows for the six 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

June 19, 2003

VendTek Systems Inc.

Consolidated Balance Sheets

	April 30, 2003 $ (unaudited)	October 31, 2002 $ (audited)
Assets		
Current Assets		
Cash and equivalents	317,542	409,570
Accounts receivable	575,721	664,563
Inventory	660,535	596,394
Prepaid expenses	16,140	5,500
	1,569,938	1,676,027
Property, Plant and Equipment	186,490	192,260
Deferred Finance and Acquisition Costs *[Note 3[b]]*	56,806	64,734
	1,813,234	1,933,021
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	940,053	792,359
Customer deposits	135,698	35,636
Current portion of long-term debt *[Note 3]*	25,451	25,451
	1,101,202	853,446
Long-Term Debt *[Note 3]*	479,135	491,187
	1,580,337	1,344,633
Shareholders' Equity		
Capital Stock *[Note 4]*	3,588,439	3,479,639
Equity Portion of Convertible Debt *[Note 3[b]]*	34,000	34,000
Deficit	(3,389,542)	(2,925,251)
	232,897	588,388
	1,813,234	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 and Six Months Ended April 30, 2003 and 2002

(Unaudited – see Notice to Reader)

	Three months ended April 30,		Six months ended April 30,	
	2003	2002	2003	2002
	$	$	$	$
Revenue *[Schedule]*	2,583,221	393,258	4,791,054	759,664
Direct Costs *[Schedule]*	2,362,586	238,540	4,510,130	515,021
Gross Profit	220,635	154,718	280,924	244,643
Expenses *[Schedule]*				
General and administrative	192,885	236,317	445,340	438,924
Product development	129,080	117,135	203,098	194,976
Selling and marketing	55,977	49,988	96,777	86,960
	377,942	403,440	745,215	720,860
Net Profit (Loss) For the Period	(157,307)	(248,722)	(464,291)	(476,217)
Deficit - Beginning of Period	(3,232,235)	(2,261,455)	(2,925,251)	(2,033,960)
Deficit - End of Year	(3,389,542)	(2,510,177)	(3,389,542)	(2,510,177)
Profit (Loss) Per Share - Basic and Fully Diluted	(.01)	(.02)	(.02)	(.05)

(See accompanying notes to consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Three Months and Six Months Ended April 30, 2003 and 2002

(Unaudited – see Notice to Reader)

	Three months ended April 30,		Six months ended April 30,	
	2003	2002	2003	2002
	$	$	$	$
Revenue				
Systems and parts	87,374	287,990	131,398	463,507
License and engineering revenues	125,399	32,532	213,270	77,798
Pre-paid PIN	2,370,448	72,736	4,419,854	218,359
Commission	-	–	26,532	–
	2,583,221	393,258	4,791,054	759,664
Direct Costs				
Direct labour	20,146	66,653	91,918	104,828
Freight, shipping and customs	2,357	8,086	5,477	10,688
Subcontract and miscellaneous	321	(887)	398	695
Purchases (net of opening and closing inventory)	2,339,762	217,981	4,412,337	427,103
Inventory obsolescence	-	(53,293)	-	(28,293)
	2,362,586	238,540	4,510,130	515,021
General and Administrative Expenses				
Accounting, legal and regulatory fees	43,899	23,987	72,215	39,346
Amortization of property, plant and equipment	14,325	32,378	26,818	48,183
Amortization of deferred finance costs	3,964	4,327	7,928	6,605
Bank charges and short-term interest	1,910	2,941	4,240	8,231
Computer expenses	(3,334)	3,830	340	6,414
Interest on long-term debt	6,922	16,368	23,648	30,150
Investor relations	8,102	4,398	16,235	8,849
Office	29,529	18,521	60,020	37,458
Rent and utilities *[Note 6]*	28,557	38,624	65,162	70,037
Salaries and benefits	81,403	80,107	147,328	157,612
Shop supplies	352	716	595	901
Telecommunications	11,923	9,464	18,491	16,922
Travel and promotion	(34,667)	6,876	2,320	14,492
Less interest and other income	-	(6,220)	-	(6,276)
	192,885	236,317	445,340	438,924
Product Development Expenses				
Materials and write down of development inventory	-	12,920	161	13,812
SR&ED tax credit	-	–	-	(12,740)
Travel	1,733	1,423	1,733	1,423
Wages and benefits	127,347	102,792	201,204	192,481
	129,080	117,135	203,098	194,976
Selling and Marketing Expenses				
Advertising, promotion and trade shows	10,950	168	10,950	446
Travel	20,789	9,784	20,789	17,457
Wages and benefits	24,238	38,410	65,038	67,431
Write-down of demonstration inventory	-	1,626	-	1,626
	55,977	49,988	96,777	86,960

(See accompanying notes to consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Six Months Ended April 30, 2003 and 2002

(Unaudited – see Notice to Reader)

	Three months ended April 30,		Six months ended April 30,	
	2003 $	2002 $	2003 $	2002 $
Operating Activities				
Net loss for the period	(157,307)	(248,722)	(464,291)	(476,217)
Items not involving cash				
Accretion of convertible debenture to face value	1,700	1,700	3,400	3,400
Amortization of property, plant and equipment	14,325	32,378	26,818	48,183
Amortization of deferred finance charges	3,964	4,327	7,928	6,605
Net change in non-cash working capital items	265,430	(106,950)	261,817	(126,910)
Cash To Operating Activities	128,112	(317,267)	(164,328)	(544,939)
Financing Activities				
Issuance of convertible debentures	-	–	-	500,000
Shares issued for cash		–	120,000	–
Financing costs deferred	-	(2,920)	-	(45,920)
Shares issued for cash on business combination	-	359,765	-	659,765
Business acquisition costs	-	(61,513)	-	(104,420)
Costs of share issuances	-	–	(11,200)	(5,000)
Related party amounts	-	(4,740)	-	(4,026)
Repayment of capital lease obligations	(10,343)	(12,542)	(15,452)	(20,006)
	(10,343)	278,050	93,348	980,393
Investing Activities				
Purchase of tangible assets	(19,440)	(9,814)	(21,048)	(16,850)
Increase (Decrease) in Cash During the Period	(98,329)	(49,031)	(92,028)	418,604
Cash - Beginning of Period	219,213	278,943	409,570	(188,692)
Cash - End of Period	317,542	229,912	317,542	229,912
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	-	16,359	310	28,483

(See accompanying notes to consolidated financial statements)

1. Nature of Operations

VendTek Systems Inc. (the "Company") develops and licenses transaction automation system software and supporting technologies focusing primarily in the prepaid telecom and financial services industries. The Company is commercializing its products through a) its wholly owned subsidiaries, 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, and b) through its corporate customers.

VendTek's 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 working to develop a recurring source of revenues from a global and growing market.

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 Chinese operating 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

	April 30, 2003 $ (unaudited)	October 31, 2002 $ (audited)
Convertible Debentures – See (b) below	476,200	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%	28,386	43,838
	504,586	516,638
Less: Current portion of capital leases	(25,451)	(25,451)
	479,135	491,187

3. Long-Term Debt (continued)

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

	$
2003	25,451
2004	11,460
2005	6,927
	43,838

(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 April 30, 2003 (unaudited)	23,711,294	3,588,439

(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 April 30, 2003 there are 1,349,850 shares held in escrow.

4. Capital Stock (continued)

(b) Warrants outstanding as at April 30, 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
5,201,728		

(c) Stock options outstanding as at April 30, 2003:

October 31, 2002 # (audited)	Price $	Granted #	Exercised #	Cancelled #	April 30, 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
1,527,550		–	–	100,000	1,427,550	

5. Related Party Transactions

Included in the net loss for the year to date is rent of $ 36,777 (2002: $36,776) 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

	NPC $	China $	Other Rev $	Total $
Revenue	4,447,091	30,593	313,370	4,791,054
Gross Profit	99,618	30,593	150,713	280,924
Net Profit (Loss)	57,122	(4,524)	(516,889)	(464,291)
Identifiable Assets	686,018	142,025	985,191	1,813,234

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 $36,777 (2002 - $36,776), paid to a company that is a wholly owned by Shellborn Enterprises Ltd. (SEL). SEL has a minority shareholder who is a director of the Company.

3. (a) Securities issued during the quarter: None

   (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 June 19, 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

SCHEDULE "C" - MANAGEMENT DISCUSSION

Note: The following management discussion has been prepared as a summary of activities for the quarter ended April 30, 2003 and of significant subsequent events to the date of this report.

NATURE 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 a) its wholly owned 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, and b) through its customers.

The Company's foremost product is its proprietary e-Fresh™ Software which consists of a suite of server applications and corresponding client modules. The e-Fresh™ software is used to create a distribution system which can be used to sell services on proprietary or non-proprietary hardware thereby creating an e-Fresh™ network.

VendTek's 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 working to develop a source of recurring 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 systems terminals.

The e-Fresh™ software utilizes POS terminals or other electronic terminals which connect to a central server, and provide a secure electronic distribution for prepaid goods and services to consumers in real time. In addition, VendTek manufactured kiosk terminals, bank machines, POS terminals, PC based kiosks, and web browsers are all potentially suitable distribution points. Compared to the traditional method of delivering prepaid services using paper or plastic vouchers, distributing services electronically allows substantial savings through reduced printing and packaging costs, physical distribution costs and shrinkage (theft), as well as the elimination of inventory holding costs at the retail distribution level.

In the past, the Company developed electronic vending systems for distributing vouchers, tickets and card products in the pre-paid long distance, lottery, postal and transit industries. The Company has effectively discontinued this aspect of the business in order to focus on the e-Fresh™ software. The Company remains capable of continuing to support legacy product customers' needs.

The Company initially entered the e-Fresh™ business by developing a self-serve terminal product for smart card vending and loading for Visa International's Visa Cash™ smart cards. This product development facilitated development of the prepaid pin distribution and money transfer systems later introduced.

As part of the Company's strategy to develop recurring sources of revenues from the e-Fresh™ software, the Company has begun to develop its own electronic distribution business across Canada under the Now Prepay™ brand. Now Prepay is currently selling all four national cellular providers and a variety of long distance products such as Now#1 and Connect Now. The Now Prepay business is operational and is now generating growing recurring revenues.

Similar to Now Prepay in Canada, VendTek Systems Technologies (Beijing) is also now operational and generating recurring revenues in China from the license of e-Fresh™ Software to our customer, The UFO Group. Our staff in the Beijing office coupled with a good business relationship with our customer in China, provides the foundation to launch the e-Fresh™ technology in additional provinces in China.

As a result of the Company's strategy to shift into software licensing, the Company's revenues are now materially derived from the e-Fresh™ based business. This consists primarily of voucher sales revenues from the Now Prepay business and the license fees from VendTek Systems China and VendTek's other customers.

The Company's consolidated financials include the revenues from the Now Prepay business in which a high volume of sales shows a low transaction based margin. These revenues are combined with a much higher margined business of software licensing, but with as of yet much lower total revenues. The

Company anticipates increasing revenues from both the Now Prepay business and software licensing resulting in increasing consolidated gross margin over time.

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

- June 9, 2003 – The Company announced that its subsidiary Now Prepay Corp. has entered into an agreement to place e-Fresh™ terminals with Pioneer Petroleums, Ontario's largest independent gasoline retailer.
- May 12, 2003 – The Company announced the sale of an additional 100 POS terminals and e-Fresh™ licenses to its partner in China.
- May 8, 2003 – The Company announced that its subsidiary Now Prepay Corp. sold 100 Now Prepay POS terminal client licenses to an Ontario based company.
- April 28, 2003 – The Company announced that Tangarine Concepts Corporation had successfully launched its Now Prepay equipped terminals into service and has ordered an additional 100 client licenses.
- April 17, 2003 – The Company announced that its customer, Wireless Products Marketing Inc., successfully launched their e-Fresh™ System into service and had purchased an additional 100 e-Fresh™ client terminal licenses.
- April10, 2003 – The Company announced that it sold an e-Fresh™ software suite of licenses and terminal client licenses to Nexus Gulf Telecom Equipment LLC of the United Arab Emirates.
- April 3, 2003 - The Company's subsidiary Now Prepay Corp. announced it had entered into a Memorandum of Understanding ("MOU") with Collective Logic Inc. whereby Collective will market the e-Fresh™ POS terminal software to its existing terminal base and to new terminals deployed.
- March 31, 2003 – The Company released a summary of its business activities in China to date.
- March 24, 2003 – The Company's subsidiary Now Prepay Corp. announced that it sold 432 POS terminal e-Fresh™ licenses to four new channel partners.
- March 20, 2003 – The Company announced a record $2,207,833 in revenues for the three months ended January 31, 2003.
- March 20, 2003 - The Company announced its subsidiary Now Prepay Corp. entered into an agreement with Datawest Solutions Inc., to provide a new value-added product via POS terminals.
- March 18, 2003 – The Company announced its subsidiary Now Prepay Corp. received an order for 100 POS terminals and licenses from Go Prepaid Inc.
- March 14, 2003 – The Company announced the sale of an e-Fresh™ software suite of licenses and terminal client licenses to Wireless Products Marketing Inc. ("WPM") based in Bloomington, Minnesota U.S.A.
- March 13, 2003 – The Company announced the sale of 100 e-Fresh™ terminal client licenses to Tangarine Concepts Corporation ("Tangarine") of St. Catharines, Ontario.
- March 6, 2003 – The Company announced that its subsidiary Now Prepay Corp. entered into a partnership with Terminal Management Concepts Ltd.
- March 4, 2003 – The Company announced that its subsidiary Now Prepay Corp. 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.

- 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. entered into an agreement with Go Prepaid Inc. to distribute prepaid cellular and long distance airtime.
- 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.
- 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 re-evaluation of and changes to its Board of Directors.
- 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.

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 six months ended April 30, 2003 ("2003") compared to the six months ended April 30, 2002 ("2002")

Revenues rose 531% in the second quarter of 2003 to $4,791,000 compared to $760,000 by the end of second quarter 2002. The 2003 revenues are comprised of prepaid PIN revenue of $4,420,000 (2002 - $218,000), license and engineering revenues of $213,000 (2002 - $78,000), and systems and parts sales of $131,000 (2002 - $464,000).

Consistent with first quarter results, the substantial rise in revenues is attributed primarily to the launch of the Company's subsidiary Now Prepay Corp. The wholesale portion of Now Prepay's prepaid cellular business provides meaningful revenues augmented by the continued installation of POS terminals across Canada for the sale of virtual prepaid cellular vouchers. A 174% increase in the Company's engineering and software licence revenues is indicative of the ongoing successful transition of the Company from a hardware manufacturer to a software engineering and licensing focus.

The consolidated gross profit for the second quarter of 2003 was 6% ($281,000) reflecting mostly the transaction based margin from the Now Prepay revenues. Higher revenues generated by Now Prepay, combined with the associated lower gross margin of the Now Prepay products, resulted in similar gross profits when compared with the 32% margin derived from low volume legacy product sales for the second quarter 2002. Again, this is an indication of the continued successful transition of the Company's core focus away from manufacturing.

General and administration ("G&A") expenses increased $6,000 (1%) to $445,000 in 2003 compared to $439,000 in 2002. Specifically, in 2003 accounting, legal and regulatory fees increased $33,000 (84%) due to an increase in AGM preparation and information dissemination costs. Further, a new policy of monthly accrual of funds for potential legal fees has contributed to the perceived expense and may be reversed at year end if unused. Investor relations increased $7,400 (83%), as external services were employed in 2003; travel and promotion decreased $11,000 (77%), as the Company corrected the allocation of appropriate travel expenses from G&A to Sales and Product Development; interest on long-term debt decreased $7,000 (22%) with the pay out of a lease; office and rent increased $18,000 (14%) reflecting the new China office set-up and Now Prepay operational overhead; salaries decreased $10,000(7%) reflective of re-allocation of a Now Prepay sales salary offset by increases due to new staff in the Beijing office and management salary re-adjustments towards levels of previous years.

Product development group expenses ("PDG") increased $8,000 (4%) to $203,000 in 2003 compared to $195,000 in 2002. Q2 2003 PDG expenses increased $55,000 (74%) when compared to Q1 2003. This increase is due to the Company correcting the allocation of appropriate expenses form G&A to Product Development, combined with an increased use of contract engineering in the second quarter 2003.

Selling and marketing expenses increased $10,000 (11%) to $97,000 in 2003 compared to $87,000 in 2002 and increased $15,000 (37%) when compared to Q1 2003. These increases are due to the Company correcting the allocation of appropriate expenses from G&A to Sales and continued to travel to China and across Canada in support of subsidiary set-up. Installation of e-Fresh™ software in two new foreign markets (USA & UAE) further contributed to increased sales expense.

Net earnings for Q2 2003 improved by 1% ($4,000) or $0.03 per share when compared with the Q2 2002 results. The net loss per share improved to $-0.02 in Q2 2003 from $-0.05 in Q2 2002. Q2 2003 net earnings improved 46% ($142,000) compared to Q1 2003.The improvement in net earnings (or reduction of net loss) for 2003 compared to 2002 is a result of increased revenues and reduced expenses. A 531% increase in revenues driven by the Now Prepay sales resulted in gross profits similar to the same six month period of 2002, which is reflective of the Company's transition from manufacturing to Now Prepay sales and the VendTek licensing of the e-fresh™ software products.

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 $164,000 in 2003; a 70% decrease compared to 2002 ($545,000). This is mostly comprised of a net loss of $472,000, offset by the net change in non-cash working capital items of $262,000 and add-backs of amortization.

Financing Activities

There were no financing activities during second quarter 2003.

As at April 30, 2003, the Company had working capital of $469,000, including cash and equivalents.

Investing Activities

Net cash used for investing activities was $21,000 comprised of tangible capital purchases, domain names and patent 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 was initially for three months. This agreement has been extended on a month by month contract for $2,000 per month. Total Investor relations services for the first six months total $16,000.

vendtek systems inc.
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