Q4

Consolidated Financial Statements
For the Years Ended
October 31, 2004 and 2003

vendtek

VendTek Systems Inc.

2004

VendTek Systems Inc.

Consolidated Balance Sheets

As at October 31, 2004 and 2003

	2004 $	2003 $
Assets		
Current Assets		
Cash and cash equivalents	508,443	139,217
Accounts receivable	621,333	331,356
Inventory *[Note 3]*	373,898	439,977
Prepaid expenses and deposits	4,604	51,360
	1,508,278	961,910
Property, Plant and Equipment *[Note 4]*	230,802	146,152
Intangible Assets *[Note 4]*	26,863	34,777
Deferred Finance and Acquisition Costs *[Note 5]*	33,022	48,878
	1,798,965	1,191,717
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	2,131,375	1,382,333
Customer deposits	–	42,477
Current portion of long-term debt *[Note 5]*	6,486	11,460
	2,137,861	1,436,270
Long-term Debt *[Note 5]*	486,400	486,527
	2,624,261	1,922,797
Shareholders' Deficit		
Share Capital *[Note 6]*	4,802,923	3,588,439
Equity Portion of Convertible Debt *[Note 5]*	34,000	34,000
Deficit	(5,662,219)	(4,353,519)
	(825,296)	(731,080)
	1,798,965	1,191,717

(See accompanying notes to the consolidated financial statements)

Approved on Behalf of the Board:

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

"Douglas Buchanan"
Douglas Buchanan, Director

VendTek Systems Inc.

Consolidated Statements of Operations and Deficit

For the Years Ended October 31, 2004 and 2003

	2004 $	2003 $
Revenue *[Schedule]*	21,741,821	11,368,940
Direct Costs *[Schedule]*	20,969,981	10,768,442
Gross Profit	771,840	600,498
Expenses *[Schedule]*		
General and administrative	1,441,106	933,147
Product development	274,733	380,772
Selling and marketing	186,232	310,619
	1,902,071	1,624,538
Net Loss Before Undernoted Item	(1,130,231)	(1,024,040)
Other Item		
Write-down of inventory	(178,469)	(404,228)
Net Loss for the Year	(1,308,700)	(1,428,268)
Deficit - Beginning of Year	(4,353,519)	(2,925,251)
Deficit - End of Year	(5,662,219)	(4,353,519)
Net Loss Per Share – Basic and Diluted	(0.04)	(0.06)
Weighted Average Shares Outstanding	29,914,000	23,628,000

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Operations Schedules

For the Years Ended October 31, 2004 and 2003

	2004 $	2003 $
Revenue		
License and engineering	123,488	397,377
Pre-paid pin gross revenue	21,295,350	10,812,931
Systems and parts sales	322,983	158,632
	21,741,821	11,368,940
Direct Costs		
Commissions	350,242	54,497
Direct labour	167,003	114,960
Foreign exchange	(3,321)	27,125
Freight, shipping and customs	20,754	13,168
Purchases, net rebates	20,407,835	10,545,675
Subcontract and miscellaneous	27,468	13,017
	20,969,981	10,768,442
General and Administrative Expenses		
Accounting, legal and regulatory fees	106,791	129,270
Amortization of deferred finance charges	15,856	15,856
Amortization of property, plant and equipment	93,054	50,283
Bad debts	2,173	2,092
Bank charges and interest	22,086	12,086
Computer	24,224	11,159
Interest on long-term debt	62,260	62,755
Investor relations	36,522	22,176
Office and miscellaneous	124,905	87,241
Rent and utilities *[Note 7]*	147,687	144,628
Salaries and benefits	684,059	351,306
Telecommunications	102,044	44,406
Travel and promotion	21,892	4,905
Less: interest and other income	–	(5,016)
gain on disposal of property, plant and equipment	(2,447)	–
	1,441,106	933,147
Product Development Expenses		
Materials	–	161
Travel	–	2,241
Wages and benefits	274,733	378,370
	274,733	380,772
Selling and Marketing Expenses		
Advertising, promotion and trade shows	27,053	19,338
Travel	143,371	118,887
Wages and benefits	11,958	172,394
Write-down of demonstration inventory	3,850	–
	186,232	310,619

(See accompanying notes to the consolidated financial statements)

VendTek Systems Inc.

Consolidated Statements of Cash Flows

For the Years Ended October 31, 2004 and 2003

	2004 $	2003 $
Operating Activities		
Net loss for the year	(1,308,700)	(1,428,268)
Items not involving cash		
Accretion of convertible debenture to face value	6,800	6,800
Amortization of deferred finance charges	15,856	15,856
Amortization of property, plant and equipment	93,054	50,283
Bad debt provision	–	2,092
Gain on disposal of property, plant and equipment	(2,447)	–
Write-down of inventory	178,469	404,228
	(1,016,968)	(949,009)
Net change in non-cash operating working capital items	350,954	634,259
Cash Used In Operating Activities	(666,014)	(314,750)
Financing Activities		
Issuance of convertible promissory note	193,500	–
Repayment of convertible promissory note	(193,500)	–
Repayment of long-term debt	(11,901)	(25,451)
Shares issued	1,224,032	120,000
Cost of issuance of shares	(9,548)	(11,200)
Cash Provided By Financing Activities	1,202,583	83,349
Investing Activities		
Proceeds on disposal of property, plant and equipment	7,905	–
Purchase of property, plant and equipment	(175,248)	(37,587)
Purchase of intangible property	–	(1,365)
Cash Used In Investing Activities	(167,343)	(38,952)
Increase (Decrease) in Cash and Cash Equivalents	369,226	(270,353)
Cash and Cash Equivalents - Beginning of Year	139,217	409,570
Cash and Cash Equivalents - End of Year	508,443	139,217
Non-Cash Financing Activities		
Issuance of 529,547 common shares for finders' fees	79,432	–
Supplemental Disclosures		
Interest paid	55,460	55,955
Income taxes paid	–	–

(See accompanying notes to the consolidated financial statements)

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 a) its wholly-owned subsidiaries, Now Prepay Corp., based in Port Coquitlam, British Columbia, Canada and VendTek Systems Technologies (Beijing) Co., Ltd., which is based in Beijing, China, and VendTek Systems Asia Pacific (Singapore) Pte. Ltd., which is based in Singapore; and b) its customers.

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.

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 $629,583 at October 31, 2004. These factors raise substantial doubt about the Company's ability to operate as a going concern. The continued operations of the Company are dependent on its ability to generate future profitable operations and obtain additional financing.

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 weighted average cost and net realizable value.

2. Summary of Significant Accounting Policies (continued)

e) Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated amortization. For the assets listed below, amortization is computed on the declining balance basis over the estimated useful life of the asset at the following annual rates:

Computer hardware	30%
Computer hardware under capital lease	30%
Computer software	100%
Equipment	20%
Furniture and fixtures	20%
Office equipment	20%
Tools and dies	30%

f) Intangible assets

Intangible assets with estimated useful lives are stated at cost less accumulated amortization. Amortization is computed on a straight-line basis over five years for patents and domain names, and on a straight-line basis over three years for website development costs. Website planning and operating costs are charged to operations.

g) Long-lived assets

The Company monitors the recoverability of long-lived assets, based on factors such as current market value, future asset utilization, business climate and future undiscounted cash flows expected to result from the use of the related assets. The Company's policy is to record an impairment loss in the period when it is determined that the carrying amount of the asset may not be recoverable. The impairment loss is calculated as the amount by which the carrying amount of the assets exceeds the undiscounted estimate of future cash flows from the asset. To October 31, 2004, 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.

2. Summary of Significant Accounting Policies (continued)

i) Income taxes

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion of all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

j) Corporate transaction costs

The Company accounts for the direct costs of corporate transactions 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 over the term to maturity. If the transaction is abandoned the costs are charged against operations.

k) Financial instruments

(i) Fair values

Carrying amounts of certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and customer deposits approximate their fair values due to their short-term maturity. The fair values of capital lease obligations and long-term debt are estimated to approximate their carrying values based on borrowing rates currently available to the Company for loans with similar terms.

(ii) Foreign currency risk

Foreign currency risk reflects the risk that the Company's foreign currency denominated net assets or operations will be negatively impacted due to fluctuations in exchange rates. Revenue and expenses of the Company denominated in foreign currencies come due in the short-term and accordingly, management of the Company believes there is no significant exposure to foreign currency fluctuations. The Company does not have foreign currency hedges in place.

(iii) Credit risk

Financial instruments subjecting the Company to concentrations of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with high quality financial institutions.

The Company's customers are concentrated in Canada and China. As at October 31, 2004, 30% (2003 – 61%) 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.

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 long distance – sales of third party brands "first use cards" where the Company incurs inventory risk and is not the ultimate obligor to the retail or wholesale customer are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on the gross basis with the cost of inventory recorded as direct costs because of the risk of carrying inventory.

m) Stock-based compensation

The Company has adopted the CICA Handbook Section 3870, which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. The standard requires that a fair value based method of accounting be applied to all stock-based payments to non-employees and to employees awards that are direct awards of stock that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. The Company has chosen to continue its existing policy of recording no compensation cost on the grant of stock options to employees. Consideration paid by employees on the exercise of stock options is recorded as share capital.

n) Loss per share

Basic net earnings (loss) per share is 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 dilative when the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

As the Company has recorded a net loss in each of the periods presented, basic and diluted net loss per share are the same since the exercise of warrants or options or the conversion of convertible securities would reduce the loss per share.

3. Inventory

	2004 $	2003 $
Finished goods	1,541	213,202
Prepaid long distance	365,543	226,775
Raw materials	6,814	–
	373,898	439,977

4. Property, Plant and Equipment and Intangible Assets

	Cost $	Accumulated Amortization $	2004 Net Carrying Value $	2003 Net Carrying Value $
Property, Plant and Equipment				
Computer hardware	216,363	110,652	105,711	72,934
Computer hardware under capital lease	56,326	43,832	12,494	17,849
Computer software	29,000	23,625	5,375	10,750
Equipment	136,031	40,587	95,444	11,490
Furniture and fixtures	9,855	4,037	5,818	7,273
Office equipment	14,244	8,284	5,960	19,427
Tools and dies	–	–	–	6,429
	461,819	231,017	230,802	146,152
Intangible Assets				
Domain names and patent costs	71,710	44,847	26,863	33,579
Website	–	–	–	1,198
	71,710	44,847	26,863	34,777

5. Long-term Debt

	2004 $	2003 $
Convertible Debentures – See (b) below	486,400	479,600
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%	6,486	18,387
	492,886	497,987
Less: Current portion of capital leases	(6,486)	(11,460)
	486,400	486,527

(a) Convertible Debentures

On November 29, 2001 the Company completed a convertible debenture financing. The Company received $500,000 and issued $500,000 of redeemable convertible debentures with a principal amount of $1,000 each to one investor. A 7% cash finders' fee was paid. Costs of completing this transaction, totalling $76,346, were deferred and are amortized to operations over the five-year term. The debentures attract interest at a rate of 9½% per annum and mature June 30, 2006. These debentures are convertible, at the option of the holder, into common shares at the following rates:

i) July 1, 2004 to June 30, 2005 - $4.00 per share
ii) July 1, 2005 to June 30, 2006 - $5.00 per share

The estimated equity value of the conversion feature of the debentures totalling $34,000, was included as a separate component of shareholders' equity. The equity component was calculated as the difference between the gross proceeds received by the Company and the discounted cash flow of repayments based on an annual rate of 12%, which was consistent with similar borrowings available to the Company, without conversion features. The remaining portion of $466,000 was classified as a long-term liability. The debt component is being accreted to its face value at maturity over the term of the debt through a charge to interest expense.

5. Long-Term Debt (continued)

(b) Convertible Promissory Note

During January 2004, the Company secured a US$150,000 convertible promissory note, which was repaid in April 2004. Interest of 10% was payable monthly. Repayment was subject to acceleration in the event that the Company completed a financing of at least US$750,000.

6. Share Capital

Authorized:

100,000,000 common shares without par value

	#	Value $
Issued at October 31, 2002	22,711,294	3,479,639
Issued for cash pursuant to a private placement ((a) below)	1,000,000	120,000
Less cost of shares issued	–	(11,200)
Issued at October 31, 2003	23,711,294	3,588,439
Issued for cash pursuant to a private placement ((a) below)	8,160,211	1,224,032
Issued for finders' fees	529,547	79,432
Less cost of shares issued	–	(88,980)
Issued at October 31, 2004	32,401,052	4,802,923

(a) Private placements

(i) On March 26, 2004 and April 13, 2004, the Company completed a private placement in tranches of 4,967,544 and 3,192,667 units at $0.15 per unit for gross proceeds of $1,224,032. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of $0.20 expiring April 13, 2006 and March 26, 2006 respectively. The Company issued an additional 529,547 units in finders' fees.

(ii) On December 5, 2002, the Company completed a private placement of 1,000,000 units at $0.12 per unit for gross proceeds of $120,000. Each unit consisted of one common share and share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the Company at a price of $0.15 for a period of two years. A finders' fee of $11,200 was paid in cash.

(b) Escrowed shares

2,000,000 shares held in escrow were released on May 3, 2001. 500,000 shares were immediately released to the shareholders and 1,500,000 shares were immediately transferred to an earn-out Pool Agreement. On May 3, 2002, 500,000 shares were released and the remaining 1,000,000 shares were released on December 9, 2003.

As at October 31, 2004, there are 363,146 shares held in escrow.

6. Share Capital (continued)

(c) Share purchase warrants

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

	Number of shares	Weighted average exercise price $
Balance, October 31, 2002	4,201,728	0.18
Issued with private placement *[Note 6(a)]*	1,000,000	0.15
Balance, October 31, 2003	5,201,728	0.18
Issued with private placement *[Note 6(a)]*	8,689,758	0.20
Expired	(4,003,126)	0.17
Balance, October 31, 2004	9,888,360	0.21

Warrants outstanding as at October 31, 2004:

#	Exercise Price $	Expiry Date
73,602	0.54	November 9, 2004
125,000	0.40	November 9, 2004
1,000,000	0.15	December 5, 2004
5,198,913	0.20	March 26, 2006
3,490,845	0.20	April 13, 2006
9,888,360		

(d) Stock options

The Company has a Stock Option Plan (the "Plan") whereby it may grant options to its directors, officers and employees. The terms and conditions of options granted under the Plan are determined solely by the Board of Directors. Options are generally granted with a term of five years, vest over eighteen months, with exercise prices equal to the fair value of the shares on the date of grant.

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

	Number of shares	Weighted average exercise price $
Outstanding, October 31, 2002	1,527,550	0.20
Granted	810,000	0.20
Forfeited	(350,650)	0.20
Outstanding, October 31, 2003	1,986,900	0.20
Granted	830,000	0.20
Forfeited	(195,000)	0.20
Expired	(582,000)	0.20
Outstanding, October 31, 2004	2,039,900	0.20
Exercisable at end of year	1,447,043	0.20

6. Share Capital (continued)

(d) Stock options (continued)

Additional information regarding options outstanding as at October 31, 2004 is as follows:

	Outstanding			Exercisable	
Exercise price $	Number Outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price $	Number Exercisable	Weighted average exercise price $
0.20	2,039,900	4.4	0.20	1,447,043	0.20

Section 3870 of the CICA Handbook requires that a Company recognize, or at its option, disclose the impact of the fair value of stock options and other forms of stock-based compensation in the determination of income. The Company has elected to measure compensation costs on the intrinsic value basis. As stock options are granted at exercise prices based on the market price of the Company's shares at the date of grant, no compensation cost is recognized. However, under Section 3870 the impact on net income and income per share of the fair value of stock options must be measured and disclosed on a fair value based method on a pro forma basis.

The weighted average grant date fair value of options granted during 2004 was $0.04 (2003 - $0.01).

The fair value for stock options granted was estimated using the Black-Scholes option pricing model assuming no expected dividends and the following weighted average assumptions:

	2004	2003
Interest rate	4.04%	3.25%
Expected life (in years)	5	5
Expected volatility	30%	30%

If compensation expense had been recorded at fair value the Company's net loss and net loss per share for the period ended would have been as follows:

	2004 $	2003 $
Net loss		
As reported	(1,308,700)	(1,428,268)
Pro forma	(1,325,692)	(1,430,131)
Net loss per share – basic and diluted		
As reported	(0.04)	(0.06)
Pro forma	(0.04)	(0.06)

7. Related Party Transactions

The Company paid rent of $78,538 (2003: $76,200) 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 unrelated parties.

8. Segmented Information

The Company operates in one industry and two geographic segments, being Canada and Asia. The accounting policies of the segments are the same as those described in Note 2.

	Canada			**Asia**	**Total**
	Now Prepay Corp. **$**	**Other** **$**	**Total** **$**	**$**	**$**
2004					
Revenue	21,487,223	64,014	21,551,237	190,584	21,741,821
Amortization	11,084	79,296	90,380	2,674	93,054
Write-down of inventory	–	178,469	178,469	–	178,439
Segment operating income (loss)	(407,213)	(792,491)	(1,199,704)	(108,996)	(1,308,700)
Segment assets	1,438,812	346,788	1,785,600	13,366	1,798,965
2003					
Revenue	10,808,201	440,170	11,248,371	120,569	11,368,940
Amortization	8,415	40,151	48,566	1,717	50,283
Write-down of inventory	–	404,228	404,228	–	404,228
Segment operating (loss)	(226,950)	(1,189,434)	(1,416,384)	(11,884)	(1,428,268)
Segment assets	636,235	499,609	1,135,844	55,873	1,191,717

9. Economic Dependence

The Company had one customer that accounted for 39% (2003 – 84%) of total revenue.

10. Income Taxes

Income taxes attributable to loss in these financial statements differ from amounts computed by applying the Canadian federal and provincial statutory rate of 35.62% (2003 – 37.62%) as follows:

	2004	2003
Expected tax recovery	$ 434,000	$ 476,000
Tax effect of:		
Permanent differences and other	(21,000)	(87,000)
Change in valuation allowance	(413,000)	(389,000)
	$ –	$ –

10. Income Taxes (continued)

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

	2004	2003
Future income tax assets:		
Property, plant and equipment	$ 28,000	$ –
Intangible assets	7,000	31,000
Non-capital loss carryforwards	1,976,000	1,666,000
Total gross future income tax assets	2,011,000	1,697,000
Valuation allowance	(2,011,000)	(1,676,000)
Net future income tax asset	–	21,000
Future income tax liability:		
Property, plant and equipment	–	(21,000)
Net future income tax liability	$ –	$ –

As at October 31, 2004, the Company and its Canadian subsidiaries have combined Canadian non-capital losses carried forward of approximately $5,547,000, which are available to offset taxable income earned in Canada. These losses expire as follows:

	$
2005	143,000
2006	593,000
2007	311,000
2008	1,008,000
2009	934,000
2010	1,439,000
2011	1,119,000
	5,547,000

Losses incurred in China through to December 31, 2005 are not available to reduce future years' taxable income in China. Taxable income in China for years ended December 31, 2006 to December 31, 2008 is taxed at 50% of normal tax rates. The potential benefits of these tax losses have not been recognized in the accounts.

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. The amount of the future tax asset considered realizable could change materially in the near term based on future taxable income during the carry forward period.

11. Subsequent Event

On November 26, 2004, the Company granted stock options to certain employees to acquire 543,000 shares of the Company exercisable at $0.20 per share and expiring on December 1, 2009. These options vest quarterly over an eighteen-month period.

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 period is rent of $78,538, 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. This transaction was in the normal course of operations and, undertaken with the same terms and conditions as a transaction with unrelated parties.

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

   (b) Options expired during the quarter:
   October 5, 2004 – 200,000 options granted to Paul Brock, President- exercisable at $0.20 issued on October 5, 1999

   October 5, 2004 – 105,000 options granted to Grant Shellborn, Director- exercisable at $0.20 issued on October 5, 1999

   October 5, 2004 – 100,000 options granted to Peter Read, Director- exercisable at $0.20 issued on October 5, 1999

   October 5, 2004 – 115,000 options granted to Doug Buchanan, Director- exercisable at $0.20 issued on October 5, 1999

   October 5, 2004 - 62,000 options granted to various employees exercisable at $0.20 issued on October 5, 1999

4. (a) See Note 7 to Schedule "A".

   (b) See Note 7 to Schedule "A".

   (c) See Note 7 to Schedule "A".

   (d) See Note 7 to Schedule "A".

5. As at February 4, 2005:

   List of Directors:
   Paul Brock
   Grant Shellborn
   Peter Read
   Doug Buchanan
   Weiguo Lang
   Sherri Macdonald
   Stuart Wooldridge

   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
   Toby Lim – Secretary

SCHEDULE "C" - MANAGEMENT DISCUSSION

Note: The following management discussion has been prepared as a summary of activities for the twelve months ended October 31, 2004 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, VendTek Systems Technologies (Beijing) Co., Ltd., which is based in Beijing, China, and VendTek Systems Asia Pacific Pte. Ltd. which is based in Singapore 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 developing sources of recurring revenue 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. In addition to VendTek manufactured kiosk terminals, third party 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.

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 developed its own electronic distribution business across Canada under the Now Prepay™ brand and the Now Prepay Corp. subsidiary. Now Prepay is currently selling all four national cellular providers in addition to the most popular long distance products. As well, 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.

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 market and largest cellular market. VendTek's Chinese operations include sales and marketing, customer support and engineering. With two 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. VendTek Asia Pacific has already initiated projects in Singapore and Malaysia.

The Company's revenues are materially derived from the e-Fresh™ based businesses. 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 yields a relatively low transaction based margin. These revenues are consolidated with the relatively high margin 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

- November 15, 2004 – The Company announced that it has licensed it's e-Fresh™ software to Nexus Gulf Telecom Equipment LLC ("Nexus") of the United Arab Emirates. Nexus plans to sell the prepaid services of Emirates Telecommunications Corporation ETISALAT as well as other prepaid selling operators.

- August 4, 2004 – The Company announced that it has signed an e-Fresh™ license agreement with ChinaPay e-Payment Services Co. ("ChinaPay") in China. ChinaPay plans to deploy e-Fresh™ software based POS terminals beginning later this year as they launch their rollout in the largest prepaid market in the world.

- June 30,2004 – The Company announced revenues rose 75% in 6mo2004 to $8,379,000 compared to $4,791,000 in 6mo2003.

- June 10, 2004 - The Company announced that it has signed a licensing agreement in Malaysia. The customer has also purchased an e-Fresh™ configured server cluster from VendTek, which will be used to launch the e-Fresh™ network in July of this year.

- May 25, 2004 - The Company announced that its wholly owned subsidiary Now Prepay Corp. has now deployed 4000 e-Fresh™ POS terminal clients in Canada.

- April 8, 2004 - The Company announced that its wholly owned subsidiary Now Prepay Corp. has now deployed 3500 e-Fresh™ POS terminal clients in Canada.

- March 29, 2004 – The Company announced the completion of the first tranche closing of its non-brokered private placement announced March 5, 2004 and updated March 12, 2004.

- March 16, 2004 – The Company announced that Lipman Canada has completed full certification of the e-Fresh™ client software on its entire line of point-of-sale ("POS") terminals currently offered throughout Canada.

- March 12, 2004 – The Company announced that certain directors and shareholders of the Company will participate in the non-brokered private placement of units at a price of $0.15 per unit, previously announced on March 5, 2004.

- March 5, 2004 - The Company announced that it is conducting a non-brokered financing to raise gross proceeds of up to $1,000,000 through the issuance of up to 6,666,667 Units at a price of $0.15 per Unit.

- February 19, 2004 – The Company announced that its wholly owned subsidiary Now Prepay Corp. has now deployed 3000 e-Fresh™ POS terminal clients in Canada.

- January 27, 2004 - The Company announced that Keycorp Canada ("Keycorp") has certified and will offer VendTek's e-Fresh™ client software on their K23 Series point-of-sale ("POS") terminals.

- January 26, 2004 - The Company announced that it has secured a US$150,000 convertible promissory note.

- January 22, 2003 - The Company announced revenues in excess of $11,000,000 for the year ended October 31, 2003.

- December 12, 2003 – The Company announced an agreement with Canadian Tire Petroleum for Now Prepay POS terminals with e-Fresh™ software to be deployed in their petroleum bars across Canada.

- November 27, 2003. The Company announced that Datawest Solutions Inc. released a new version of their Hypercom ICE 5500 terminal application inclusive of an e-Fresh™ application to be used for the distribution of prepaid cellular and long distance airtime to consumers via POS terminals connected to the Now Prepay network.

- November 18, 2003 – The Company announced that its wholly owned subsidiary Now Prepay Corp. reached a new milestone of 2000 e-Fresh POS terminals deployed in Canada.

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

Results of Operations for the twelve months ended October 31, 2004 ("12mo2004") compared to the twelve months ended October 31, 2003 ("12mo2003")

Revenues rose 91% for the 12mo2004 to $21,742,000 compared to $11,369,000 for the 12mo2003. The 12mo2004 revenues are comprised of prepaid PIN revenue of $21,295,000 (12mo2003 - $10,813,000), license and engineering revenues of $124,000 (12mo2003 - $297,000), and systems and parts sales of $323,000 (12mo2003 - $159,000).

As in each of the previous seven quarters, revenues have continued to grow. The increase is primarily indicative of the continued growth of the Company's subsidiary Now Prepay Corp. The ongoing installation of POS terminals across Canada for the sale of virtual prepaid telecommunications vouchers provides meaningful revenues which are augmented by the wholesale portion of Now Prepay's prepaid cellular business. License and engineering revenues were down $274,000 (221%) due to a reduction in engineering services supplied. However, this was partially offset by a $164,000 (103%) increase in systems and parts revenues derived from the sale of a server in Malaysia and parts sold in Canada.

The consolidated gross profit for the 12mo2004 was $772,000 compared to $600,000 for the same period in 2003, an increase of 28%. The high revenues generated by Now Prepay accounted for the majority of the consolidated gross profits that remain indicative of the low margin virtual prepaid telecommunications industry in which Now Prepay conducts its business.

Due to a reallocation of expenses, general and administration ("G&A") expenses increased by $508,000 (54%) to $1,441,000 for the 12mo2004 compared to $933,000 for the 12mo2003. Salaries under G&A increased $333,000 (95%) with the appropriate re-allocation of Now Prepay management wage expenses from sales to G&A; travel and promotional expenses were up $17,000 (340%) due to increased travel and automotive expenses as well as meals and other marketing expenses; office, telecommunications, rent, amortization and interest expenses rose $143,000 (35%) due to increased costs associated with Now Prepay telecommunication lines and increased paper and postage costs, transaction costs as well as an increase in rent and insurance expenses; accounting and legal fees decreased $23,000 (21%) due to decreased legal expenses in the quarter; computer expenses increased by $13,000 (120%) due to the purchase of computers to act as demonstration and active servers in Asia and Canada, banking charges increased $10,000 (83%) due to increased electronics funds transfer charges related to the collection of Now Prepay revenues; investor relations costs increased by $14,000 (65%) due to increased services.

The reallocation of expenses to G&A caused engineering expenses to decrease $106,000 (38%) to $275,000 for the 12mo2004 compared to $381,000 for the 12mo2003. The reduction is offset by an increased use of contract engineering, and additional engineering staff in VendTek Technologies Beijing.

Selling and marketing expenses decreased $124,000 (67%) to $186,000 for the 12mo2004 compared to $311,000 for the 12mo2003. The decrease is due to the reallocation of sales wage expense to G&A. The reduction is offset by an increase in business travel during 2004.

Net loss for 12mo2004 decreased by $120,000 (9%) to $1,309,000 when compared with the 12mo2003 loss of $1,428,000. This decrease in loss was due to higher systems revenues and increased virtual telecommunication sales for the 12mo2004 compared to 12mo2003. The earnings are offset by increased expenses in wages, telecommunication, office and computer expenses. The net loss per share for the 12mo2004 decreased by 50% to ($0.04) compared to ($0.06) for the 12mo2003.

Liquidity and Capital Resources

As of October 31, 2004, the Company had a working capital deficiency of $630,000. 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.

Operating Activities

The Company's operating activities used cash of $666,000 for 12mo2004; a 209% increase when compared to 12mo2003 ($315,000). This use of cash is comprised of a net loss of $1,309,000 and the net change in non-cash working capital items of $351,000, as well as amortization.

Financing Activities

On March 26, 2004 and April 13, 2004, the Company completed a private placement in two tranches for gross proceeds of $1,224,032. Each unit consisted of one common share and one share purchase warrant entitling the holder to acquire one additional common share of the Company at a price of $0.20 expiring March 26, 2006 and April 13, 2006. The Company issued an additional 529,547 units in finders' fees.

During January 2004, the Company secured a US$150,000 convertible promissory note, which was repaid in April 2004. The note bore interest at 10% payable monthly and was due on December 31, 2004. Repayment was subject to acceleration in the event that the Company completed a US$750,000 or greater financing.

Long term debt was reduced by $5,000 with the payment capital leases (refer to note 6 of schedule A.)

Investing Activities

Net cash used for investing activities was $175,000 comprised of tangible capital purchases.

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. HMS Consulting of Vancouver, BC provides investor relations and corporate communications services under contract. Total cost for investor relations services for 12mo2004 was $37,000.

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