

Consolidated Financial Statements of

VENDTEK SYSTEMS INC.

Years ended October 31, 2014 and 2013



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of VendTek Systems Inc.

We have audited the accompanying consolidated financial statements of VendTek Systems Inc., which comprise the consolidated statements of financial position as at October 31, 2014 and October 31, 2013, the consolidated statements of operations and comprehensive loss, changes in equity (deficiency) and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of VendTek Systems Inc. as at October 31, 2014 and October 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that VendTek Systems Inc. has realized a net loss from continuing operations and negative cash flows for the years ended October 31, 2014 and October 31, 2013 and has a shareholders' deficiency and working capital deficiency as of October 31, 2014 and 2013. These conditions, along with other matters as set forth in Note 1 in the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about VendTek Systems Inc.'s ability to continue as a going concern.

KPMG LLP

Chartered Accountants

February 24, 2015
Vancouver, Canada

VENDTEK SYSTEMS INC.

Consolidated Statements of Financial Position

October 31, 2014 and 2013

	Note	2014	2013
Assets			
Current assets:			
Cash and cash equivalents		\$ 291,366	\$ 2,653,198
Restricted cash		-	146,606
Accounts receivable		101,776	2,172,495
Inventories		-	1,423,827
Prepaid expenses and deposits		81,943	518,506
		475,085	6,914,632
Non-current assets:			
Property, plant and equipment	6	87,053	855,880
Intangible assets	7	60,198	86,638
Goodwill		-	907,342
Total assets		\$ 622,336	\$ 8,764,492

Liabilities and Shareholders' Deficiency

Current liabilities:			
Accounts payable and accrued liabilities		\$ 1,997,969	\$ 9,686,126
Current portion of finance lease obligations	8	25,051	263,083
Current portion of convertible debentures	8	860,000	3,045,394
Deferred revenue		-	306,981
Short term loans	8	597,206	-
		3,480,226	13,301,584
Non-current liabilities:			
Long term portion of finance lease obligations	8	34,314	196,200
Long term portion of convertible debenture	8	635,754	-
		670,068	196,200
Shareholders' deficiency:			
Share capital	9	12,188,130	12,188,130
Contributed surplus	9	4,090,033	3,916,136
Deficit		(19,847,980)	(20,579,957)
Accumulated other comprehensive income (loss)		41,859	(257,601)
		(3,527,958)	(4,733,292)
Total liabilities and shareholders' deficiency		\$ 622,336	\$ 8,764,492

Nature of operations (note 1)

Commitments (note 17)

Subsequent events (note 21)

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board:

_____ Director

_____ Director

VENDTEK SYSTEMS INC.

Consolidated Statements of Operations and Comprehensive Loss

Years ended October 31, 2014 and 2013

	Note	2014	2013
			(Restated - note 12)
Continuing operations:			
Revenue:			
Software license and services		\$ 1,600,164	\$ 1,679,371
Cost of software license and services		-	30,786
Gross profit		1,600,164	1,648,585
Operating expenses:			
General and administrative		2,769,432	2,678,519
Research and development		777,857	873,247
Impairment of non-financial assets	7	-	671,942
Total operating expenses	10	3,547,289	4,223,708
Loss before finance costs, gain on disposal of assets and foreign exchange loss (gain)		(1,947,125)	(2,575,123)
Finance costs	11	406,003	686,900
Gain on disposal of assets		(2,666)	-
Foreign exchange loss (gain)		49,988	(35,827)
Net loss from continuing operations before tax		(2,400,450)	(3,226,196)
Income tax recovery	14	43,554	-
Net loss from continuing operations		(2,356,896)	(3,226,196)
Discontinued operations:			
Net income (loss) from discontinued operations	12	3,088,873	(1,131,229)
Net income (loss) for the year		731,977	(4,357,425)
Other comprehensive income (loss):			
Foreign currency translation adjustment		13,960	(3,919)
Foreign currency translation realized on deconsolidation of Brazil		285,500	-
Comprehensive income (loss)		\$ 1,031,437	\$ (4,361,344)
Net earnings (loss) per common share:			
Basic and diluted	15	\$ 0.01	\$ (0.07)
Weighted average shares outstanding:			
Basic and diluted		58,357,652	58,357,652

See accompanying notes to the consolidated financial statements.

VENDTEK SYSTEMS INC.

Consolidated Statements of Changes in Equity (Deficiency)

Years ended October 31, 2014 and 2013

	Share capital		Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' deficiency
	Number	Value				
Balance, October 31, 2012	58,357,652	\$ 12,188,130	\$ 3,813,238	\$ (253,682)	\$ (16,222,532)	\$ (474,846)
Stock based compensation	-	-	102,898	-	-	102,898
Currency translation adjustment	-	-	-	(3,919)	-	(3,919)
Loss for year	-	-	-	-	(4,357,425)	(4,357,425)
Balance, October 31, 2013	58,357,652	12,188,130	3,916,136	(257,601)	(20,579,957)	(4,733,292)
Stock based compensation (note 9)	-	-	49,936	-	-	49,936
Equity components of convertible debentures and warrants (note 9)	-	-	123,961	-	-	123,961
Currency translation adjustment	-	-	-	13,960	-	13,960
Currency translation realized on deconsolidation of Brazil	-	-	-	285,500	-	285,500
Income for year	-	-	-	-	731,977	731,977
Balance, October 31, 2014	58,357,652	\$ 12,188,130	\$ 4,090,033	\$ 41,859	\$ (19,847,980)	\$ (3,527,958)

See accompanying notes to the consolidated financial statements.

VENDTEK SYSTEMS INC.

Consolidated Statements of Cash Flows

Years ended October 31, 2014 and 2013

	Note	2014	2013
Cash provided by (used in):			
Operating activities:			
Income (loss) for the year		\$ 731,977	\$ (4,357,425)
Items not involving cash:			
Amortization		453,510	496,583
Accretion on convertible debentures		125,164	319,328
Mark to market loss on derivatives		120,711	144,000
Foreign exchange loss (gain)		49,988	(35,827)
Loss (gain) on disposal of assets		(2,666)	121,900
Gain on disposal of discontinued operations	12	(4,792,384)	-
Gain on deconsolidation of Brazilian operations	12	(400,079)	-
Stock-based compensation expense	9	49,936	102,898
Impairment of non-financial assets		-	671,942
Income tax recovery		(43,554)	-
Change in non-cash operating working capital	20	307,110	1,723,578
Interest expense on long-term debt		237,670	313,104
		(3,162,617)	(499,919)
Financing activities:			
Interest paid on long-term debt		(207,650)	(298,119)
Short term loans		250,000	-
Repayment of convertible debentures		(1,628,000)	-
Repayment of capital lease obligations		(287,685)	(213,553)
		(1,873,335)	(511,672)
Investing activities:			
Purchases of equipment		(225,106)	(235,034)
Decrease (increase) in restricted cash		(10,270)	69,255
Proceeds on disposition of equipment		-	20,195
Net proceeds received from disposition of discontinued Canadian operations		3,577,953	-
Cash used in deconsolidation of Brazil operations		(723,076)	-
Payments to develop intangible assets		-	-
		2,619,501	(145,584)
Foreign exchange effect on cash and cash equivalents		54,619	17,754
Decrease in cash and cash equivalents		(2,361,832)	(1,139,421)
Cash and cash equivalents, beginning of year		2,653,198	3,792,619
Cash and cash equivalents, end of year		\$ 291,366	\$ 2,653,198

See accompanying notes to the consolidated financial statements.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

1. Nature of operations:

VendTek Systems Inc. (the "Company") was incorporated on February 23, 1988 under the British Columbia Business Corporations Act. The Company develops, markets, and licenses automated transaction system software and supporting technologies.

The Company's business focuses primarily on the licensing of its software to customers internationally, including the United Arab Emirates ("UAE"), China, Brazil and Africa.

The head office, principal address and registered and record office of the Company are located at Suite 401, 850 Harbourside Drive, North Vancouver, British Columbia, V7P 0A3.

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. For the year ended October 31, 2014 the Company has incurred a net loss from continuing operations of \$2.4 million and negative cash flows of \$3.1 million from operating activities. The Company also has a working capital deficiency of \$3 million and a shareholders' deficiency of \$3.5 million as at October 31, 2014. These conditions raise significant doubt about the ability of the Company to continue as a going concern without additional financing or renegotiate the terms of existing financing. In addition to the funds raised subsequent to year end (note 21), Management is pursuing several sources of additional financing (both debt and equity) and is of the opinion that sufficient working capital will be obtained from: external financing, renegotiation of existing financing; and improved operations to meet the Company's liabilities and commitments as they become due, although there is significant risk that this may not happen on a timely basis or on terms acceptable to the Company.

These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying consolidated financial statements.

2. Basis of preparation:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved by the Directors for issue on February 13, 2015.

(a) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments that are measured at fair values.

(b) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

2. Basis of preparation (continued):

(c) Use of estimates and judgments:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected .

(i) Significant area where management's judgment has been applied:

Determination of functional currency

Determination of functional currency requires management to make judgment in evaluating primary and secondary indicators under IAS 21, *The Effect of Changes in Foreign Exchange Rates*. Key judgments include primary economic environment in which the Company primarily operates, currency that mainly influences the sales prices for its goods and services and the costs of labour and materials, and the country whose competitive forces and regulations mainly determine sales prices.

(ii) Significant areas where management's estimates and assumptions have been applied:

Trade and other receivables

The critical estimates and assumptions underlying the valuation of trade and other receivables are set out in note 3(d). Details of the aging and allowance for impairment of trade and other receivables are set out in note 19(c)(ii).

Impairment of long-lived assets

The critical estimates and assumptions underlying the recoverability of long-lived assets are set out in note 3(q)(ii).

Fair values of financial instruments

The critical estimates and assumptions underlying the determination of fair values of financial instruments are set out in notes 8 and 19.

3. Significant accounting policies:

The significant accounting policies used in the preparation of these consolidated financial statements are described below.

(a) Basis of consolidation:

(i) Business combinations:

These consolidated financial statements include the accounts of VendTek Systems Inc. and its wholly owned subsidiaries: VendTek Industries Inc., VendTek Systems

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

(i) Business combinations (continued):

Technologies (Beijing) Co., Ltd., VendTek Systems Asia Pacific (Singapore) Pte. Ltd. and Gulf Payment Networks.

These consolidated financial statements include the accounts of Now Prepay Servicos de Informatica Ltda. until August 31, 2014, after which this wholly owned subsidiary was deconsolidated due to loss of control (note 12(c)).

Starting August 2014, the Company had no ability to govern the financial and operating policies of Now Prepay Brazil due to the loss of power to effectively control management there; accordingly, the Company derecognized related assets, liabilities and non-controlling interests of Now Prepay Brazil.

(ii) Subsidiaries:

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company.

(iii) Transactions eliminated on consolidation:

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

(b) Cash and cash equivalents and restricted cash:

Cash and cash equivalents include cash on hand, balances with banks and highly liquid securities, consisting primarily of term deposits having maturities at the date of purchase of three months or less. The carrying amounts approximate fair values due to the short-term maturities of these instruments. Restricted cash relates to certain deposits in Brazil as collateral for letters of credit

(c) Inventories:

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out principle, and includes expenditures incurred in acquiring the inventories.

(d) Trade and other receivables:

Trade and other receivables, categorized as loans and receivables, are carried at amortized cost. The Company maintains an allowance for doubtful accounts for estimated losses that may result from customers' inability to pay. The allowance for doubtful accounts is based on the Company's assessment of the collectability of outstanding receivables that are performed on an individual account basis. If, based on an evaluation of accounts, it is concluded that it is probable that a customer may default, an expected impairment loss is recognized for the amounts that are determined to be uncollectable. Recoveries are only recorded when objective verifiable evidence supports the change in the original allowance. Changes in the carrying amount of the allowance account are recognized in profit or loss for the period.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(e) Property, plant and equipment:

(i) Recognition and measurement:

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

(ii) Amortization:

Amortization is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Amortization is recognized in profit or loss on a declining balance basis for each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term.

Amortization is computed at the annual rates below:

Asset	Rate
Computer hardware	30%
Equipment	30%
Furniture and fixtures	20%
Leasehold improvements	Lesser of lease term and useful life
Office equipment	20%

(f) Intangible assets:

(i) Intangible assets (acquired either individually or with a group of other assets) are recorded at their original cost. Intangible assets related to acquisitions are recorded at their estimated fair value at the acquisition date.

(ii) Amortization is recognized in profit or loss over the estimated useful lives of intangible assets, other than goodwill, from the date that they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

Asset	Basis	Rate
Customer relationships	Straight line	Over 5 years
Computer software	Declining balance	30%

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(f) Intangible assets:

(iii) Development costs are capitalized and deferred when the Company can demonstrate:

- Technical feasibility of completing the development so that it will be available for use or sale;
- Its intention to complete and its ability to use or sell the asset;
- The ability to use or sell the intangible asset;
- How the asset will generate future economic benefits;
- The availability of resources to complete the asset; and
- The ability to reliably measure the expenditure during development.

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above.

(g) Goodwill:

Goodwill represents the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is recorded on a cash-generating unit basis and is not subject to amortization.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that it might be impaired.

(h) Foreign currency translation:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the respective functional currencies of the related entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(h) Foreign currency translation (continued):

(ii) Foreign operations:

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date.

The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive loss in the cumulative translation account.

(i) Leases:

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

(j) Revenue recognition:

Software license and service revenues represent professional service fees received for customization of the e-Fresh software and transaction fees received from the processing of prepaid mobile airtime and other prepaid recharges. Customization fees are recognized at the completion of the contract and transaction-based fees are recognized at the time the transactions are processed.

Included in discontinued operations are revenues from: network revenues which represent resale and distribution of prepaid telecommunication products (principally prepaid cellular and prepaid long distance products); equipment and parts sales; and software license and the related services sales. Revenues are recognized when persuasive evidence of a sale arrangement exists, delivery has occurred or services have been rendered, the price is fixed or determinable, and collectability is reasonably assured.

Sales of prepaid calling cards and point of sale activated PINs are recognized on a gross basis as the Company is the primary obligor to its customer and incurs inventory risk.

The resale of prepaid telecommunication services where the Company earns commissions on services sold and does not incur inventory risk are recognized at the date of sale as the Company's continued obligations effectively end on that date. These sales are recorded on a net basis. Equipment sales are ancillary to the resale of prepaid products. Equipment sales and parts revenue is recognized when the equipment and parts are delivered.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(k) Finance costs:

Finance costs comprise interest expense on borrowings, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets.

(l) Deferred revenue:

The Company's deferred revenue represents cash received in excess of revenues recognized on software license and service agreements.

(m) Stock-based compensation:

The Company uses the fair-value based method of accounting for stock-based compensation for all awards of shares and share options granted. The resulting compensation expense, based on the fair value of the awards granted, is recorded in operating expenses with a corresponding increase in contributed surplus.

Under the fair value based method, share-based awards to employees are measured at the fair value of the equity instrument issued as of the grant date using the Black-Scholes model and estimated forfeitures. The fair value of each award tranche is recognized over its respective vesting period. At each reporting date, the Company reassesses its estimates of the number of awards that are expected to vest and recognizes the impact of any revision in the statement of comprehensive income with a corresponding adjustment to equity.

(n) Income taxes:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(n) Income taxes (continued):

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(o) Earnings per share:

The Company presents basic and diluted earnings per share ("EPS") data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise convertible debentures and share options granted to employees. Convertible debentures and share options granted to employees could potentially dilute basic EPS; however, they are anti-dilutive for the years ending October 31, 2014 and 2013.

(p) Financial instruments:

Financial assets and financial liabilities are initially measured at fair value and are subsequently re-measured based on their classification as described below. Transaction costs that are directly attributable to the acquisition or issuance of a financial asset or liability, other than financial assets and liabilities classified at fair value through profit or loss, are added or deducted from the fair value of the respective financial asset or financial liability on initial recognition. Transaction costs that are directly attributable to the acquisition of a financial asset or financial liability classified at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred, and the Company has transferred substantially all of the risks and rewards of ownership.

Financial liabilities are derecognized when its contractual obligations are discharged or cancelled or expire.

(i) Non-derivative financial assets:

The Company's non-derivative financial assets are classified as loans and receivables. This classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value and are subsequently re-measured at amortized costs using the effective interest method, less any impairment losses. Loans and receivables include cash and cash equivalents, restricted cash, and accounts receivable.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(p) Financial instruments (continued):

(ii) Non-derivative financial liabilities:

The Company has non-derivative financial liabilities that are classified as other financial liabilities. Such liabilities are initially measured at fair value and are subsequently measured at amortized costs using the effective interest method. Other financial liabilities include bank indebtedness, accounts payable and accrued liabilities, finance lease obligations and convertible debentures.

(iii) Derivative financial instruments:

The Company holds derivative instruments that are classified as financial assets or financial liabilities at fair value through profit or loss. Such instruments are measured at fair value with any gains or losses arising on subsequent re-measurement recognized in profit or loss.

The Company does not use derivative financial instruments for speculative purposes and has chosen not to designate them as hedges.

(q) Impairment:

(i) Financial assets:

Financial assets not carried at fair value through profit or loss are assessed for impairment at each reporting date. A financial asset is impaired if objective evidence indicates that a loss event which negatively affected the estimated future cash flows has occurred after the initial recognition of the asset, and that the amount of such loss can be estimated reliably.

For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. If an impairment has occurred, the carrying amount of the asset is reduced, with the amount of the loss recognized in profit or loss. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets:

Non-financial assets are reviewed for impairment at each reporting date to determine whether events or changes in circumstances indicate that an asset's carrying amount may be less than its recoverable amount. When there is any indication of impairment, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, non-financial assets that do not generate independent cash flows are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(q) Impairment (continued):

(ii) Non-financial assets (continued):

An impairment loss is recognized if the carrying value of an asset, CGU or group of CGU's exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(r) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

(s) Compound financial instruments:

Compound financial instruments issued by the Company comprise convertible debentures that can be converted to share capital at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not remeasured subsequent to initial recognition.

Interest, dividends, losses and gains relating to the financial liability are recognized in profit or loss. Distributions to the equity holders are recognized in equity, net of any tax benefit.

(t) Related party transactions:

All monetary transactions occurring with related parties in the normal course of operations are measured at the exchange value agreed by the parties.

(u) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

3. Significant accounting policies (continued):

(v) Comparative information:

Certain comparative information has been reclassified to conform to the basis of presentation adopted in the current year.

4. Changes in accounting policies:

The Company has consistently applied the accounting policies set out in note 3 to all periods presented in these consolidated financial statements, with the exception of the following new accounting standards that were issued by the IASB and adopted by the Corporation, effective November 1, 2014.

IFRS 7 - Financial Instruments: Disclosures

In December 2011, the IASB issued amendments to IFRS 7 - Financial Instruments: Disclosures. The objective of this amendment to IFRS 7 is to enhance disclosures about offsetting of financial assets and financial liabilities. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

IFRS 10 - Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 - Consolidated Financial Statements. The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. The adoption of IFRS 10 did not have an impact on the Company's consolidated financial statements.

IFRS 13 - Fair Value Measurement

In May 2011, the IASB issued IFRS 13 - Fair Value Measurement. The objective of IFRS 13 is to define fair value, set out in a single IFRS the framework for measuring fair value, and establish disclosure requirements regarding fair value measurements. The adoption of this standard did not have a significant impact on the Company's consolidated financial statements.

5. New standards and interpretations not yet adopted:

IFRS 9 - Financial Instruments

In November 2009 the IASB issued IFRS 9, Financial Instruments (IFRS 9 (2009)), and in October 2010, the IASB published amendments to IFRS 9 (IFRS 9 (2010)).

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

5. New standards and interpretations not yet adopted (continued):

IFRS 9 (2010) introduces additional changes relating to financial liabilities.

In November 2013, the IASB issued a new general hedge accounting standard, which forms part of IFRS 9 Financial Instruments (2013). This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship. The new standard removes the January 1, 2015 effective date of IFRS 9. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized; however, in its February 2014 meeting, the IASB tentatively decided that IFRS 9 would be mandatorily effective for annual periods beginning on or after January 1, 2018.

IFRS 15 - Revenue from Contracts with Customers

On May 28, 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31 Revenue - Barter Transactions Involving Advertising Services.

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much, and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs.

The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

The Company intends to adopt IFRS 15 in its financial statements for the fiscal year beginning on November 1, 2017. The extent of the impact of adoption has not yet been determined.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

6. Property, plant and equipment:

Property, plant and equipment consist of the following at October 31:

Cost	Furniture and fixture	Computer hardware	Office equipment	Equipment	Leasehold improvements	Total
Balance, October 31, 2012	\$ 88,612	\$ 689,790	\$ 100,166	\$ 2,046,278	\$ 14,939	\$ 2,939,785
Additions	10,021	19,874	561	475,968	-	506,424
Disposal	-	(1,324)	(8,334)	(417,546)	-	(427,204)
Foreign currency translation	(796)	(3,354)	247	(49,870)	(80)	(53,853)
Balance, October 31, 2013	97,837	704,986	92,640	2,054,830	14,859	2,965,152
Additions	11,053	88,262	-	1,241,800	1,713	1,342,828
Disposal	-	(70,744)	-	(44,628)	-	(115,372)
Disposal on discontinued operations	(38,051)	(78,216)	-	(3,496,458)	(1,698)	(3,614,423)
Foreign currency translation	1,264	(3,777)	3,234	244,456	57	245,234
Balance, October 31, 2014	\$ 72,103	\$ 640,511	\$ 95,874	\$ -	\$ 14,931	\$ 823,419

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

6. Property, plant and equipment (continued):

Accumulated amortization	Furniture and fixture	Computer hardware	Office equipment	Equipment	Leasehold improvements	Total
Balance, October 31, 2012	\$ 54,073	\$ 588,896	\$ 91,670	\$ 1,213,673	\$ 6,016	\$ 1,954,328
Additions	8,227	43,731	7,895	390,620	2,387	452,860
Disposal	-	(662)	(8,084)	(275,800)	-	(284,546)
Foreign currency translation	(121)	(854)	1,159	(13,506)	(48)	(13,370)
Balance, October 31, 2013	62,179	631,111	92,640	1,314,987	8,355	2,109,272
Additions	5,663	48,368	3,632	362,433	1,574	421,670
Disposal	-	(17,686)	-	(34,494)	-	(52,180)
Disposal on discontinued operations	(6,346)	(49,622)	-	(1,882,712)	(1,698)	(1,940,378)
Foreign currency translation	(3,890)	(20,207)	(17,762)	239,786	55	197,982
Balance, October 31, 2014	\$ 57,606	\$ 591,964	\$ 78,510	\$ -	\$ 8,286	\$ 736,366
Net balance as at:						
October 31, 2013	\$ 35,658	\$ 73,875	\$ -	\$ 739,843	\$ 6,504	\$ 855,880
October 31, 2014	14,497	48,635	17,364	-	6,645	87,053

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

7. Intangible assets:

Intangible assets consist of the following at October 31:

	Customer relationships acquired	Computer software	Deferred development cost	Total
Cost:				
Balance, October 31, 2012	\$ 458,000	\$ 341,000	\$ 883,215	\$ 1,682,215
Impairment	-	-	(883,215)	(883,215)
Foreign currency translation	-	(431)	-	(431)
Balance, October 31, 2013	458,000	340,569	-	798,569
Disposal on discontinued operations	(450,000)	(9,169)	-	(467,169)
Foreign currency translation	-	6,358	-	6,358
Balance, October 31, 2014	\$ -	\$ 337,758	\$ -	\$ 337,758

	Customer relationships acquired	Computer software	Deferred development cost	Total
Accumulated amortization:				
Balance, October 31, 2012	\$ 458,000	\$ 214,789	\$ -	\$ 672,789
Additions	-	39,372	-	39,372
Foreign currency translation	-	(230)	-	(230)
Balance, October 31, 2013	458,000	253,931	-	711,931
Additions	-	25,189	-	25,189
Disposals	(458,000)	-	-	(458,000)
Disposal on discontinued operations	-	(7,025)	-	(7,025)
Foreign currency translation	-	5,465	-	5,465
Balance, October 31, 2014	\$ -	\$ 277,560	\$ -	\$ 277,560

Net balance as at:

October 31, 2013	\$ -	\$ 86,638	\$ -	\$ 86,638
October 31, 2014	-	60,198	-	60,198

During the year ended October 31, 2013, the Company wrote-off deferred development costs amounting to \$883,215 as well as a receivable of \$65,819 that also related to these same deferred development costs. These amounts were related to an agreement originally entered into to design and implement a Mobil Wallet Platform Solution. The Company determined that these expenditures no longer met the requirements for deferral as outlined in IFRS and therefore these items were expensed. Additionally, a deferred revenue amount of \$277,091 received from the same customer in 2012 was written-off as the related revenue will not be recognized. This deferred revenue amount offsets the write-off of the costs above for a net impairment expense of \$671,942.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings:

The contractual terms of the Company's interest-bearing loans and borrowings, which are measured at amortized cost, are disclosed below. For more information about the Company's exposure to interest rate, foreign currency and liquidity risk, see note 19:

	2014	2013
Current liabilities:		
Current portion of finance lease liabilities	\$ 25,051	\$ 263,083
Short term loans	597,206	-
Current portion of convertible debentures	860,000	3,045,394
	1,482,257	3,308,477
Long-term liabilities:		
Finance lease liabilities	34,314	196,200
Convertible debentures	635,754	-
	\$ 2,152,325	\$ 3,504,677

(a) Short term loans:

	2014	2013
Bridge loan	\$ 216,236	\$ -
Performance security guarantee ("PSG")	380,970	-
	\$ 597,206	\$ -

The Bridge loan matures January 31, 2015, is unsecured and bears interest at 18.0% per annum, payable monthly in arrears. This loan originated on August 1, 2014 and originally had an interest rate of 3.0% per month until October 31, 2014, at which time the terms were amended to the above.

The PSG is denominated in USD \$338,009, is unsecured and came due on October 9, 2014 and bears interest at the Royal Bank of Canada's prime interest rate for USD loans. This PSG balance originated on September 29, 2014.

(b) Convertible debentures:

(i) 2011 convertible debentures:

On January 26, 2011, the Company issued 550 units (the "Units") in a private placement offering for gross proceeds of \$550,000 ("Debenture #1"). On February 22, 2011, the Company issued an additional 2,500 brokered Units for gross proceeds of \$2,500,000 ("Debenture #2"). Each Unit consists of one unsecured convertible debenture of the Company having a principal amount of \$1,000 (the "Debentures") and 500 warrants, each being exercisable to acquire one common share of the Company (the "Warrants"). Each warrant allowed the holder to buy one share of the Company until January 25, 2014, at a price of \$1.00.

The Debentures accrued interest at 6% per annum, payable semi-annually and were convertible into common shares, at the holder's option, at any time prior to maturity at \$0.64 per common share.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings (continued):

(b) Convertible debentures (continued):

(i) 2011 convertible debentures (continued):

On October 31, 2013, the Company announced that it retired \$750,000 of Debenture #2 with a related party as partial consideration for its revised territory agreement.

Of the \$2,300,000 remaining in Debentures #1 and #2 that matured on January 25, 2014, \$1,628,000 were repaid on February 6, 2014, and \$260,000 of Debentures #1 and \$412,000 of Debenture #2 were cancelled and issued as new debentures for the same principal amounts (Debentures #4 and #5, respectively) and warrants, as applicable, to the holders.

Debenture #4 consist of an aggregate principal value of \$260,000 and mature February 25, 2017. These Debentures accrue interest at 7.5% per annum, payable semi-annually and are convertible into common shares, at the holder's option, at any time prior to maturity at \$0.10 per common share. The Debentures are redeemable, in whole or in part, by the Company at any time at a premium of 3% to the outstanding principal amount redeemed. These Debentures also include warrants (the number of which is (i) the principal value of indebtedness of the holder's existing Convertible Debenture divided by (ii) \$0.12 multiplied by (b) 50%, rounded down to the nearest whole number), exercisable at \$0.12 per share and expiring on February 25, 2017.

Debenture #5 consist of an aggregate principal value of \$412,000 and mature February 25, 2017. These Debentures accrue interest at 9.0% per annum, payable semi-annually and are convertible into common shares, at the holder's option, at any time prior to maturity at \$0.10 per common share. The Debentures are redeemable, in whole or in part, by the Company at any time at a premium of 3% to the outstanding principal amount redeemed.

(ii) 2012 convertible debentures:

On September 26, 2012, the Company issued 860 units (the "Units") in a private placement offering for gross proceeds of \$860,000. Each Unit consists of one unsecured convertible debenture of the Company having a principal amount of \$1,000 (the "Debenture #3") and 9,091 warrants, each being exercisable to acquire one common share of the Company (the "Warrants"). Each Warrant allowed its holder to buy one share of the Company until September 26, 2014 at a price of \$0.15. These warrants expired during the current year.

Debenture #3 accrues interest at 6% per annum, payable semi-annually and was convertible into common shares, at the holder's option, at any time prior to maturity at \$0.11 per common share. Debenture #3s was redeemable, in whole or in part, by the Company at any time at a premium of 3% to the outstanding principal amount redeemed. Debenture #3 matured on September 26, 2014 and the Holder has verbally agreed to an extension, but with no definitive agreement in place for a repayment date.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings (continued):

(b) Convertible debentures (continued):

(ii) 2012 convertible debentures (continued):

Proceeds from the issuance of the 2011, 2012 and 2014 convertible debentures were allocated to the liability and equity components of the respective Debentures and to the Warrants using the residual method. The fair value of the liability component was determined based on the future payments of principal and interest for a debt instrument of comparable maturity and credit quality but excluding any conversion option by the holder. The Company has also identified that the redemption feature is considered to be an embedded derivative, and as a result, is carried at fair value, with any changes in the fair value being recorded in the Company's statement of operations. The Company has calculated the fair value of this derivative separately, and has recorded it against the liability portion of the Debentures.

The difference between the proceeds received and the fair value of the liability component calculated at the date of issuance was allocated as the equity component, which includes the values of both the conversion feature, as well as the Warrants. The liability component will be accreted through the term of the Debentures through the recording of an accretion expense using the effective interest method, until such date if or when all underlying Debentures are converted into common shares or repaid.

The following summarizes the face and carrying value of the liability of the Debentures at October 31, 2014:

Liability components	Face value	Carrying value
Debenture #1:		
Balance, as at October 31, 2012	\$ 550,000	\$ 509,561
Accretion expense	-	33,145
Balance, as at October 31, 2013	550,000	542,706
Matured debenture repayment	(138,000)	(138,000)
Accretion expense	-	7,294
Matured and re-issued (Debenture #4)	(412,000)	(412,000)
Balance, as at October 31, 2014	\$ -	\$ -

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings (continued):

(b) Convertible debentures (continued):

(ii) 2012 convertible debentures (continued):

The carrying values of the warrants and conversion feature were \$29,411 and \$149,001 respectively.

Liability components	Face value	Carrying value
Debenture #2:		
Balance, as at October 31, 2012	\$ 2,500,000	\$ 2,243,208
Debenture returned for cancellation	(750,000)	(750,000)
Accretion expense	-	214,389
Balance, as at October 31, 2013	1,750,000	1,707,597
Matured debenture repayment	(1,490,000)	(1,490,000)
Accretion expense	-	42,403
Matured and re-issued (Debenture #5)	(260,000)	(260,000)
Balance, as at October 31, 2014	\$ -	\$ -

The carrying values of the warrants and conversion feature were \$124,795 and \$149,001, respectively.

Liability components	Face value	Carrying value
Debenture #3:		
Balance, as at October 31, 2012	\$ 860,000	\$ 579,297
Accretion expense	-	71,794
Mark to market derivative adjustment	-	144,000
Balance, as at October 31, 2013	860,000	795,091
Accretion expense	-	64,909
Balance, as at October 31, 2014	\$ 860,000	\$ 860,000

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings (continued):

(b) Convertible debentures (continued):

(ii) 2012 convertible debentures (continued):

The carrying values of the warrants and conversion feature are \$60,915 and \$159,821, respectively.

Liability components	Face value	Carrying value
Debenture #4:		
Balance, as at Jan 25, 2014	\$ 260,000	\$ 186,121
Accretion expense	-	7,207
Mark to market derivative adjustment	-	41,931
Balance, as at October 31, 2014	\$ 260,000	\$ 235,259

The carrying values of the warrants and conversion feature are \$8,675 and \$45,995, respectively.

Liability components	Face value	Carrying value
Debenture #5:		
Balance, as at Jan 25, 2014	\$ 412,000	\$ 318,364
Accretion expense	-	3,351
Mark to market derivative adjustment	-	78,780
Balance, as at October 31, 2014	\$ 412,000	\$ 400,495

The carrying value of the conversion feature is \$69,291.

Total balance:		
October 31, 2013	\$ 3,160,000	\$ 3,045,394
October 31, 2014	1,532,000	1,495,754

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

8. Loans and borrowings (continued):

(c) Finance lease obligations:

Finance lease liabilities are payable as follows for the years ended October 31:

	2014			2013		
	Future minimum lease payments	Interest	Present value of minimum lease payments	Future minimum lease payment	Interest	Present value of minimum lease payments
Less than one year	\$ 29,157	\$ 4,106	\$ 25,051	\$ 316,796	\$ 53,713	\$ 263,083
Between one and five years	36,244	1,930	34,314	217,189	20,989	196,200
	<u>\$ 65,401</u>	<u>\$ 6,036</u>	<u>\$ 59,365</u>	<u>\$ 533,985</u>	<u>\$ 74,702</u>	<u>\$ 459,283</u>

(d) The Company financed the purchases of \$70,744 of computer equipment by way of finance leases payable over three years, secured by the related equipment, which mature during 2017. The annual interest rate implicit in these capital leases range from 8.7% - 12.5%.

(e) The Company financed the purchase of \$11,193 of office equipment by way of a capital lease payable over four years, secured by related equipment, which mature in 2017. The annual interest implicit in the lease is 5.3%.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

9. Share capital:

(a) Authorized and issued:

Unlimited common shares without par value.

(b) Warrants:

On February 28, 2011, the Company issued 1,695,000 equity units in a private placement offering for gross proceeds of \$1,017,000. Each of these units consists of one common share and one half common share purchase warrant, with one full warrant being exercisable to acquire one common share of the Company. Each Warrant allowed its holder to buy one share of the Company until February 28, 2014, at a price of \$0.75. These warrants expired during the current year.

On October 12, 2011, the Company issued 3,333,333 equity units in a private placement offering for gross proceeds of \$2,000,000. Each of these units consists of one common share and one half common share purchase warrant, with one full warrant being exercisable to acquire one common share of the Company. Each Warrant allowed its holder to buy one share of the Company until October 12, 2014, at a price of \$0.75. These warrants expired during the current year.

On August 7, 2012, the Company issued 5,630,000 equity units in a private placement offering for gross proceeds of \$619,300. Each of these units consists of one common share and one half common share purchase warrant, with one full warrant being exercisable to acquire one common share of the Company. Each Warrant allowed its holder to buy one share of the Company until August 7, 2014, at a price of \$0.20. These warrants expired during the current year.

On September 2, 2012, the Company issued 182,000 equity units in a private placement offering for gross proceeds of \$20,020. Each of these units consists of one common share and one half common share purchase warrant, with one full warrant being exercisable to acquire one common share of the Company. Each Warrant allowed its holder to buy one share of the Company until September 2, 2014, at a price of \$0.20. These warrants expired during the current year.

Total warrants outstanding are those noted above in addition to the warrants attached to the convertible debentures (note 8).

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

9. Share capital (continued):

(b) Warrants (continued):

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

	Number of shares	Weighted average exercise price
Balance, October 31, 2011	4,039,167	\$ 0.84
Issued from the non-brokered convertible debenture financing	7,818,181	0.15
Issued as a result of the August 7, 2012 equity financing	2,815,000	0.20
Issued as a result of the September 2, 2012 equity financing	91,000	0.20
Balance, October 31, 2012 and 2013	14,763,348	0.35
Expired from 2011 non-brokered convertible debentures	(275,000)	(1.00)
Expired from 2011 brokered convertible debentures	(1,250,000)	(1.00)
Expired from February 28, 2011 equity financing	(847,500)	(0.75)
Expired from October 12, 2011 equity financing	(1,666,667)	(0.75)
Expired from August 7, 2012 equity financing	(2,815,000)	(0.20)
Expired from September 2, 2012 equity financing	(91,000)	(0.20)
Expired from September 26, 2012 debenture financing	(7,818,181)	(0.15)
Issued as a result of the February 26, 2014 convertible debenture refinancing	1,083,333	0.12
Balance, October 31, 2014	1,083,333	\$ 0.12

(c) Contributed surplus:

A summary of contributed surplus is as follows:

Balance, October 31, 2012	\$ 3,813,238
Stock-based compensation	102,898
Balance, October 31, 2013	3,916,136
Stock-based compensation	49,936
Equity component of 2014 convertible debentures, net of deferred tax (note 8)	115,286
Warrants attached to 2014 convertible debentures (note 8)	8,675
Balance, October 31, 2014	\$ 4,090,033

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

9. Share capital (continued):

(d) Stock options:

The Company has a stock option plan (the "Plan") whereby it may grant up to 9,803,892 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 and vest over a period between 18 and 51 months.

During the year ended October 31, 2014, 1,037,500 options (2013 - 548,148) were granted under the Plan with a combined grant date value of \$101,753 or \$0.10 per option (2013 - \$60,296 or \$0.08 per option). The weighted average remaining contractual life of options outstanding as of October 31, 2014 was 3.05 years (2013 - 3.61 years). At October 31, 2014, 1,587,500 (2013 - 1,462,500) stock options with a fair value of \$127,075 (2013 - \$87,750) were unvested and will be expensed in future periods.

During the year ended October 31, 2014, the Company recognized \$49,936 (2013 - \$102,898) in stock-based compensation relating to the granting of options. The amount related to employees was \$40,179 (2013 - \$63,916) for the year ended October 31, 2014. This amount is included in general and administrative expense.

The following table summarizes the continuity of the Company's stock options as at October 31, 2014:

	Number of shares	Weighted average exercise price
Outstanding, October 31, 2012	2,875,000	0.24
Granted	548,148	0.14
Cancelled	(150,000)	0.63
Forfeited	(195,000)	0.82
Outstanding, October 31, 2013	3,078,148	\$ 0.17
Granted	1,037,500	0.10
Cancelled	(720,000)	(0.13)
Outstanding, October 31, 2014	3,395,648	\$ 0.16

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

9. Share capital (continued):

(d) Stock options (continued):

For employees, the Company uses the Black-Scholes option pricing model to determine the fair value of stock options on the grant date. The following are the weighted average assumptions used for stock options granted for the year ended October 31:

	2014	2013
Risk free interest rate	1.67%	1.31%
Expected dividend yield	nil	nil
Expected option life (years)	5	5
Expected stock price volatility	208%	108%
Weighted average fair value of options granted at market prices	\$ 0.10	\$ 0.08

The following table outlines the number of options outstanding and exercisable for directors and employees as at October 31, 2014:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number exercisable	Weighted average exercise price
\$0.10 - \$0.14	2,885,648	3.38	\$ 0.11	1,298,148	\$ 0.12
\$0.43 - \$0.45	510,000	1.17	0.43	510,000	0.43
	3,395,648	3.05	\$ 0.16	1,808,148	\$ 0.21

10. Operating expenses by nature:

Operating expenses include the following for the year ended October 31:

	2014	2013
		(Restated – note 12)
Wages, salary and benefits	\$ 2,405,905	\$ 2,306,935
Stock based compensation	49,936	102,898
Amortization	73,146	75,260
Bank charges	43,636	11,045
Recovery of penalties and fees	-	(93,146)
Professional fees	168,862	327,078
Impairment of non-financial assets	-	671,942
Insurance	121,961	172,401
Rent	229,018	199,626
Telephone and communications	124,117	151,132
Travel and accommodations	187,606	195,798
Other expenses	143,102	102,739
	\$ 3,547,289	\$ 4,223,708

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

11. Finance costs:

Finance income and costs consisted of the following for the year ended October 31:

	2014	2013
Interest expense	\$ 160,128	\$ 223,572
Accretion on convertible debentures	125,164	319,328
Mark to market loss on derivatives	120,711	144,000
	\$ 406,003	\$ 686,900

12. Discontinued operations:

(a) Sale of Canadian operations:

On January 31, 2014, the Company completed an agreement to sell substantially all of its Canadian operations to Payment Source, Inc. ("PSI"). Under the terms of the sale agreement, the Company sold its assets and associated liabilities constituting its Now Prepay division to PSI in exchange for \$4,500,000 and the assumption of up to \$1,500,000 of working capital deficit, excluding cash and cash equivalents (the "Working Capital"), for total consideration of \$6,000,000 (the "Purchase Price").

Payment arrangements for the Purchase Price were as follows:

- (i) deposit of \$200,000, which was paid to the Company on November 15, 2013;
- (ii) cash payment of \$3,850,000, and \$24,142 in closing adjustments which was paid on February 3, 2014; and
- (iii) a further \$450,000 (the "Holdback"), was to be paid within 90 days following the Closing of the transaction.

The Purchase Price was adjusted based upon the calculation of Working Capital in the January 31, 2014 financial statements as follows:

- (i) in the event that Working Capital was calculated to be between negative \$1,000,000 and negative \$1,500,000, inclusive, there was to be no adjustment to the Purchase Price;
- (ii) in the event that Working Capital was calculated to be greater than negative \$1,000,000.01, the Purchase Price was to be increased by the difference between the Working Capital and negative \$1,000,000.01; and
- (iii) in the event that Working Capital was calculated to be less than negative \$1,500,000.01, the Purchase Price was to be decreased by the difference between negative \$1,500,000.01 and the Working Capital.

Such adjustment was to take place within 90 days following the Closing of the transaction. This working capital adjustment calculation has been completed and resulted in an excess negative working capital amount of \$832,307, which was netted against the \$450,000 holdback, resulting in a payment owing back to the purchaser of \$382,307.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

12. Discontinued operations (continued):

(b) Discontinued US operations:

On March 31, 2014, the Company ceased to operate its US prepaid business and has included the results of this in discontinued operations in these consolidated financial statements.

(c) Discontinued Brazil operations:

In August 2014, the Company lost control of its Brazilian subsidiary, Now Prepay Servicos de Informatica Ltda. ("Now Prepay Brazil") and deconsolidated it, treating the operations as discontinued operations in the Company's consolidated financial statements.

The loss of control stems from actions taken by one of the Company's Brazilian banks which froze certain of Now Prepay Brazil's bank accounts that contained operating funds and payments from customers. The freeze was completely unilaterally without any prior notice to the Company. The frozen accounts were subsequently released to the Company; however, due to the timing and duration of the freeze, Now Prepay Brazil was unable to make timely payments to certain suppliers. As a result, Now Prepay Brazil was shut down by its Brazilian administrator and placed into liquidation. The Company is unable to determine the amount of funds it may recover from the liquidation of Now Prepay Brazil and has not recorded any recovery in these consolidated financial statements.

As a result of the deconsolidation, a gain on deconsolidation of \$685,579 was recognized in discontinued operations.

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

12. Discontinued operations (continued):

The following is the final calculation of the gain on disposal of the Canadian business:

	January 31, 2014
Gross sale price from disposition	\$ 6,000,000
Less:	
Net working capital negative balance as per agreement	(1,500,000)
Purchase Price adjustment for excess Working Capital deficiency ¹	(832,307)
Net proceeds from disposition	3,667,693
Disposition costs	(89,740)
Net disposed liabilities ²	1,214,431
Gain on disposal of business	\$ 4,792,384

¹ The following is the final calculation of the disposed Working Capital:

	January 31, 2014
Trade receivables	\$ 1,425,747
Inventories	1,546,479
Prepaid expenses and deposits	335,286
Trade and other payables	(5,639,819)
Net disposed Working Capital	(2,332,307)
Working Capital per agreement	(1,500,000)
Purchase price adjustment for excess Working Capital deficiency	\$ (832,307)

² The following is the final calculation of the disposed assets and liabilities:

	January 31, 2014
Trade receivables	\$ 1,425,747
Inventories	1,546,479
Prepaid expenses and deposits	335,286
Property, plant and equipment	210,534
Trade and other payables	(5,639,819)
Goodwill	907,342
Net disposed liabilities	\$ (1,214,431)

VENDTEK SYSTEMS INC.

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Years ended October 31, 2014 and 2013

12. Discontinued operations (continued):

The comparative figures in the Consolidated Statement of Operations and Comprehensive Loss for the years ended October 31, 2014 and 2013, respectively, have been reclassified in accordance with the classification and accounting of the Canadian, US and Brazilian Prepaid businesses as discontinued operations.

Net income from discontinued operations is comprised of the following:

2014	Canadian/ USA	Brazil	Total
Revenue:			
Products and service revenue	\$ 18,060,458	\$ 2,342,362	\$ 20,402,820
Cost of products and service revenue	17,359,568	1,318,731	18,678,299
Gross profit	700,890	1,023,631	1,724,521
Operating expenses:			
General and administrative	329,164	1,850,320	2,179,484
Selling and marketing	123,014	1,439,873	1,562,887
Total operating expenses	452,178	3,290,193	3,742,371
Income (loss) before interest, gain(loss) on disposal of assets and gain on discontinued operations	248,712	(2,266,562)	(2,017,850)
Interest expense	-	(77,542)	(77,542)
Loss on disposal of assets	(8,198)	-	(8,198)
Gain on disposal of discontinued operations	4,792,384	400,079	5,192,463
Net income (loss) from discontinued operations	\$ 5,032,898	\$ (1,944,025)	\$ 3,088,873

Net income from discontinued operations is comprised of the following:

2013	Canadian/ USA	Brazil	Total
Revenue:			
Products and service revenue	\$ 79,852,375	\$ 1,786,122	\$ 81,638,497
Cost of products and service revenue	76,501,138	1,095,617	77,596,755
Gross profit	3,351,237	690,505	4,041,742
Operating expenses:			
General and administrative	1,379,033	1,707,418	3,086,451
Selling and marketing	464,478	1,410,616	1,875,094
Total operating expenses	1,843,511	3,118,034	4,961,545
Income (loss) before interest, loss on disposal of assets	1,507,726	(2,427,529)	(919,803)
Interest expense	-	(89,532)	(89,532)
Loss on disposal of assets	(43,380)	(78,520)	(121,900)
Net income (loss) from discontinued operations	\$ 1,464,346	\$ (2,595,581)	\$ (1,131,229)

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

12. Discontinued operations (continued):

Net cash flows from discontinued operations are comprised of the following:

	2014	2013
Cash used in operating activities	\$ (310,054)	\$ 913,999
Cash used in financing activities	(344,498)	(316,399)
Cash provided by (used in) investing activities	2,633,170	(133,832)
Foreign exchange effect on cash and cash equivalents	47,915	15,979
Cash and cash equivalents provided by (used in) discontinued operations	\$ 2,026,533	\$ 479,747

VENDTEK SYSTEMS INC.

Notes to Consolidated Financial Statements

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13. Segmented disclosure:

The Company no longer operates in more than one segment due to the sale of the Canadian business and loss of control of the Brazilian subsidiary.

14. Income taxes:

(a) Income tax expense is comprised of the following for the year ending October 31:

	2014	2013
Current tax expense:		
Current period	\$ -	\$ -
Deferred tax expense:		
Origination and reversal of temporary tax differences	\$ 451,500	\$ (1,049,017)
Tax recorded in equity related to convertible debenture	(43,554)	-
Adjustments for prior periods	(3,396)	(10,964)
Change in unrecognized deductible temporary differences	(448,104)	1,059,981
Total income tax recovery	\$ (43,554)	\$ -

(b) A reconciliation of income taxes at statutory rates to actual taxes is as follows for the year ending October 31:

	2014	2013
Income (loss) before income taxes	\$ 688,423	\$ (4,357,425)
Combined Canadian federal and provincial income tax rate	26.00%	25.07%
Income tax cost (benefit)	\$ 178,990	\$ (1,092,406)
Reconciliation of effective tax rates:		
Differences between statutory tax rates	(41,122)	47,136
Permanent differences	(1,729,300)	42,559
Change in unrecognized temporary differences	1,538,416	1,008,410
Other	9,462	(5,699)
Income tax recovery	\$ (43,554)	\$ -

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Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

14. Income taxes (continued):

(c) Recognized deferred tax assets and liabilities:

Deferred taxes have been recognized in respect of the following items for the year ending October 31:

	2014	2013
Deferred tax assets:		
Non-capital losses	\$ 9,424	\$ 28,652
Deferred tax liabilities:		
Convertible debenture	(9,424)	(28,652)
	\$ -	\$ -

(d) Unrecognized deferred tax assets:

Deferred tax assets have not been recognized in respect of the following temporary differences, as at October 31:

	2014	2013
Non-capital losses	\$ 3,515,600	\$ 10,629,668
Net capital losses	2,964,409	2,964,409
Property, plant and equipment and intangibles	153,900	177,285
Investment in Brazil	8,352,000	485,837
Other	107,716	189,197
	\$ 15,093,625	\$ 14,446,096

As at October 31, 2014, the Company has non-capital losses carried forward for Canadian tax purposes totaling approximately \$3,067,000 (2013 - \$4,382,305) for which none have been recognized as deferred tax assets. The Company recognizes the benefit of tax losses only to the extent of anticipated future taxable income in relevant jurisdictions. The gross amount of tax losses carried forward expires in various years to 2033.

As well, the Company has Canadian capital loss carry forwards of approximately \$2,964,409 (2013 - \$2,964,409) available to reduce future Canadian taxable capital gains.

As at October 31, 2014, the Company had Chinese losses from operations of approximately \$412,000 (2013 - \$196,463) that may be used to offset future taxable income in China for corporate tax and trade purposes. These losses are set to expire in 2015.

As at October 31, 2013, the Company had Brazilian losses of approximately \$2,964,000 which are no longer included in these financial statements due to the deconsolidation of Now Prepay Servicos de Informatica Ltda.

Deferred tax assets have not been recognized in respect of these items because it is not probable that future benefit will be available against which the corporation can utilize the benefits.

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15. Net earnings (loss) per common share:

2014	Continuing operations	Discontinued operations	Total
Net income (loss) - basic	\$ (2,356,896)	\$ 3,088,873	\$ 731,977
Effect of dilutive securities - convertible debentures	-	-	-
Net income (loss) - diluted	\$ (2,356,896)	\$ 3,088,873	\$ 731,977
Weighted average number of shares outstanding - basic	58,357,652	58,357,652	58,357,652
Effect of dilutive securities - convertible debentures	-	-	-
Weighted average number of shares outstanding - diluted	58,357,652	58,357,652	58,357,652
Net income (loss) per share - basic	\$ (0.04)	\$ 0.05	\$ 0.01
Effect of dilutive securities - convertible debentures	-	-	-
Net income (loss) per share - diluted	\$ (0.04)	\$ 0.05	\$ 0.01

2013	Continuing operations	Discontinued operations	Total
Net income (loss) - basic	\$ (3,226,196)	\$ (1,131,229)	\$ (4,357,425)
Effect of dilutive securities - convertible debentures	-	-	-
Net income (loss) - diluted	\$ (3,226,196)	\$ (1,131,229)	\$ (4,357,425)
Weighted average number of shares outstanding - basic	58,357,652	58,357,652	58,357,652
Effect of dilutive securities - convertible debentures	-	-	-
Weighted average number of shares outstanding - diluted	58,357,652	58,357,652	58,357,652
Net income (loss) per share - basic	\$ (0.06)	\$ (0.02)	\$ (0.07)
Effect of dilutive securities - convertible debentures	-	-	-
Net income (loss) per share - diluted	\$ (0.06)	\$ (0.02)	\$ (0.07)

The calculation of diluted net earnings (loss) per share excludes 3,395,648 (2013 - 3,078,148) shares issuable on the exercise of outstanding stock options and 1,083,333 (2013 - 14,763,348) shares issuable on the exercise of outstanding warrants on the basis that they are non-dilutive.

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Notes to Consolidated Financial Statements

Years ended October 31, 2014 and 2013

16. Related party transactions:

(a) Parent and ultimate controlling party:

During the year ended October 31, 2014, the Company recognized \$333,000 (USD \$307,000) (2013 - \$624,000 (USD \$612,000)) of revenue from the majority shareholder of the Company. As at October 31, 2014, nil (October 31, 2013 - nil) of this amount is recorded within accounts receivable.

On September 26, 2012, the majority shareholder purchased all of the \$860,000 or all 860 units of convertible debentures which are currently outstanding (note 8).

(b) Key management personnel compensation

In addition to their salaries, the Company also provides non-cash benefits to directors and executive officers in the form of the Company's share option program (see note 9).

Key management personnel compensation comprised:

	2014	2013
Short-term employee wages and benefits	\$ 1,055,801	\$ 1,298,978
Stock-based compensation	101,758	41,360
	<u>\$ 1,157,559</u>	<u>\$ 1,340,338</u>

(c) Key management personnel and director transactions:

The Company had a lease commitment and paid rent of \$49,795 (2013 - \$49,795) to a company in which an employee has a minority equity interest. On July 31, 2014, the Company gave the required four month notice to discontinue this lease agreement effective expired November 30, 2014. In addition to minimum lease payments of \$4,150 per month, the facility lease required payment of a proportionate share of taxes and operating expenses. This transaction was in the normal course of operations at the agreed exchange amount between the parties.

17. Commitments:

At October 31, 2014, the Company is committed to future minimum annual operating lease payments for its premises for the years ending October 31 as follows:

2015	\$	77,628
2016		79,128
2017		82,128
2018		82,880
2019		56,256
	<u>\$</u>	<u>378,020</u>

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Notes to Consolidated Financial Statements

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18. Capital risk management:

The Company manages capital in order to safeguard its ability to continue as a going concern, to help ensure that adequate returns are provided to shareholders, and to maintain an appropriate balance of risk and return. The Company strives to accomplish these objectives with the least dilution to its shareholders. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may incur or repay debt, purchase shares for cancellation pursuant to normal course issuer bids, and issue new shares. The Board of Directors reviews and approves capital and operating budgets and any material transactions outside of the ordinary course of business, including proposals on acquisitions. Total capital managed is determined as follows:

	2014	2013
Line of credit - Canada	\$ -	\$ 500,000
Short term loans - Canada	597,206	-
Line of credit - Brazil, \$100K BRL	-	46,900
Line of credit - Brazil, \$195K BRL	-	91,455
Shareholder's deficiency	(3,527,958)	(4,733,292)
	<u>\$ (2,930,752)</u>	<u>\$ (4,094,937)</u>

19. Financial instruments:

(a) Fair values:

(i) Fair values versus carrying amounts:

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, approximate their carrying values because of the short-term nature of these instruments.

The fair values of convertible debentures also approximate their carrying values.

(ii) Interest rates used for determining fair value:

The interest rate used to discount estimated cash flows, when applicable, are based on the government yield curve at the reporting date plus an adequate credit spread.

(iii) Fair values hierarchy:

An established fair value hierarchy requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is available and significant to the fair value measurement. There are three levels of inputs that may be used to measure fair value:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
- Level 3 - inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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19. Financial instruments (continued):

(a) Fair values (continued):

(iii) Fair values hierarchy (continued):

The embedded derivative on convertible debentures is carried at fair value are classified within Level 2 of the valuation hierarchy.

The Company's convertible debentures are not actively traded; therefore, management estimated the fair value using valuation techniques that require inputs that are unobservable (level 3 of the fair value hierarchy).

(b) Foreign currency risk:

(i) Exposure to currency risk:

Foreign currency risk reflects the risk that the Company's net assets or operations will be negatively impacted due to fluctuations in exchange rates. Accounts receivable and payable 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 derivatives in place. The majority of the Company's revenues and purchases are made in Canadian dollars. However, certain of the Company's revenues and expenses are denominated in US dollars, Chinese renminbi and Brazilian real.

The following table summarizes the percentage of foreign currency denominated financial assets and liabilities:

	Carrying amount	% denominated in Canadian dollars	% denominated United States dollars	% denominated Chinese renminbi	% denominated Brazilian real
October 31, 2014					
Financial assets:					
Cash, cash equivalents and restricted cash	\$ 291,366	40.9	52.7	6.4	
Accounts receivable	101,776	99.4	-	0.6	
Financial liabilities:					
Trade payable and other liabilities	2,057,334	99.3	-	0.7	
Short term loans	597,206	36.2	63.8	-	
Convertible debentures	1,495,754	100.0	-	-	
October 31, 2013					
Financial assets:					
Cash, cash equivalents and restricted cash	\$ 2,799,804	61.6	22.4	2.6	13.5
Accounts receivable	2,172,495	66.6	9.0	0.0	24.4
Financial liabilities:					
Trade payable and other liabilities	10,145,409	84.3	1.0	0.2	14.5
Convertible debentures	3,045,394	100.0	-	-	-

VENDTEK SYSTEMS INC.

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19. Financial instruments (continued):

(b) Foreign currency risk (continued):

(ii) Sensitivity analysis:

The effect of a stronger or weaker Canadian dollar, all other variables remaining constant, on the fair valuation of financial instruments and the corresponding effect on profit or loss and other comprehensive income (loss) as at October 31, 2014 is immaterial for the Brazilian real, US dollar and Chinese renminbi.

(c) Credit risk:

(i) Exposure to credit risk:

Credit risk reflects the risk that the Company may be unable to recover accounts receivable. The Company's customers are currently concentrated in Canada, U.K., Afghanistan and the UAE. The Company generally does not require collateral. The carrying amount of accounts receivable is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement within operating expenses.

The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2014	2013
Cash and cash equivalents	\$ 291,366	\$ 2,653,198
Restricted cash	-	146,606
Accounts receivable	101,776	2,172,495
	<u>\$ 393,142</u>	<u>\$ 4,972,299</u>

(ii) Impairment risk:

When a receivable balance is considered uncollectible, it is written off against the allowance for doubtful accounts. Subsequent recoveries of amounts previously written off are credited against operating expenses in the income statement.

The following table sets forth details of the age of receivables as well as an analysis of overdue amounts and related allowance for doubtful accounts:

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19. Financial instruments (continued):

(c) Credit risk (continued):

(ii) Impairment risk (continued):

The aging of trade and other receivables at the reporting date was:

	Gross 2014	Impairment 2014	Gross 2013	Impairment 2013
Not past due	\$ 78,044	\$ -	\$ 1,921,753	\$ -
Past due 0-30 days	14,500	-	147,937	6,717
Past due 31-60 days	9,232	-	97,065	9,783
More than 61 days	-	-	43,314	21,074
	\$ 101,776	\$ -	\$ 2,210,069	\$ 37,574

The movement in the allowance for impairment in respect of trade and other receivables during the year was as follows:

	2014	2013
Balance as at November 1	\$ 37,574	\$ 38,775
Impairment	-	(1,201)
Portion disposed of with Canadian business sale	(37,574)	-
Balance as at October 31	\$ -	\$ 37,574

(d) Liquidity risk:

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company manages liquidity risk by monitoring its cash flows and other anticipated expenses to ensure there are sufficient cash resources to meet forecasted operational expenses and financial obligations. As at October 31, 2014, the Company has a negative working capital balance of \$3,005,141 (2013 - \$6,386,952). The Company will manage its liquidity risk in the coming twelve months by monitoring its operating expenses and cash flows. While the Company has demonstrated the ability to secure additional financing when required in the past there is no assurance of its ability to continue to do so or on terms favourable to the Company.

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Years ended October 31, 2014 and 2013

19. Financial instruments (continued):

(d) Liquidity risk (continued):

The maturities of the contractual cash flows of the Company's financial liabilities are shown in the following table:

2014	Carrying amount	Contractual cash flows	Maturing in less than 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Maturing beyond 5 years
Non-derivative financial liabilities:						
Trade payable and other liabilities	\$ 2,057,334	\$ 2,063,370	\$ 2,027,126	\$ 29,157	\$ 7,087	\$ -
Short term loans	597,206	597,206	597,206	-	-	-
Convertible debenture	1,495,754	1,532,000	860,000	-	672,000	-
	\$ 4,150,294	\$ 4,192,576	\$ 3,484,332	\$ 29,157	\$ 679,087	\$ -

2013	Carrying amount	Contractual cash flows	Maturing in less than 1 year	Maturing in 1 to 2 years	Maturing in 2 to 5 years	Maturing beyond 5 years
Non-derivative financial liabilities:						
Trade payable and other liabilities	\$ 10,145,409	\$ 10,225,533	\$ 10,002,921	\$ 175,729	\$ 46,883	\$ -
Convertible debenture	3,045,394	3,205,192	3,205,192	-	-	-
	\$ 13,190,803	\$ 13,430,725	\$ 13,208,113	\$ 175,729	\$ 46,883	\$ -

20. Supplementary cash flow information:

Changes in non-cash operating working capital for the year ended October 31:

	2014	2013
Accounts receivable	\$ 402,399	\$ 1,092,459
Inventory	(178,665)	508,981
Prepaid expenses	55,657	61,705
Trade and other accounts payable	334,700	(228,567)
Deferred revenue	(306,981)	289,000
	\$ 307,110	\$ 1,723,578

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Years ended October 31, 2014 and 2013

21. Subsequent events:

On January 15, 2015 the Company completed a sale of 14,288,179 units (the "Units"), on a private placement basis, at the purchase price of \$0.0105 per Unit to raise gross proceeds of \$150,026. Each Unit consists of one common share of the Company and one common share purchase warrant. Each warrant is exercisable until January 15, 2018 to acquire one common share at a price of \$0.05 per common share.

On February 5, 2015, the Company issued \$350,000 of secured convertible debentures ("Convertible Debentures") on a private placement basis that will mature on February 4, 2018. These bear interest at a rate of 1.0% per annum and have a conversion price of \$0.05 per common share in the first year of the term and \$0.10 in the remainder of the term. In addition, the Company issued 7,000,000 additional warrants exercisable at \$0.05 per common share with the issuance of these Convertible Debentures. These Convertible Debentures still require Final Approval from the TSX Venture Exchange.