# Cencotech Inc.

Consolidated Financial Statements
October 31, 2008 and 2007

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## AUDITORS' REPORT

**To the Shareholders of**
**Cencotech Inc.**

We have audited the consolidated balance sheets of Cencotech Inc. as at October 31, 2008 and 2007 and the consolidated statements of loss and deficit and cash flows for the years ended. These financial statements are the responsibility of the company's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Smith Nixon LLP

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
December 2, 2008

# Cencotech Inc.

**CONSOLIDATED BALANCE SHEETS**

| | **October 31, 2008** | October 31, 2007 |
|---|---|---|
| | **$** | $ |
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash | **13,654** | 117,798 |
| Accounts receivable | **354,467** | 43,151 |
| Parts inventory | **3,364** | 4,386 |
| Assigned promissory note, short term (Note 11) | **319,303** | 297,776 |
| Prepaid expenses | **20,481** | 8,095 |
| Future income tax asset (Note 10) | **-** | 6,973 |
| | **711,269** | 478,179 |
| ASSIGNED PROMISSORY NOTE (Note 11) | **27,628** | 346,931 |
| INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT (Note 5) | **22,363** | 37,644 |
| | **761,260** | 862,754 |
| **LIABILITIES** | | |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities (Note 13) | **565,387** | 334,274 |
| Deferred revenue | **65,778** | 128,019 |
| Convertible debenture (Note 6) | **1,000,000** | 1,000,000 |
| Secured debt (Note 13) | **326,604** | 210,082 |
| Contingent debt, short term (Notes 11 and 13) | **319,303** | 297,776 |
| | **2,277,072** | 1,970,151 |
| CONTINGENT DEBT (Notes 11 and 13) | **27,628** | 346,931 |
| | **2,304,700** | 2,317,082 |
| **SHAREHOLDERS' DEFICIT** | | |
| Share capital (Note 8) | **5,368,752** | 5,368,752 |
| Deficit | **(6,912,192)** | (6,823,080) |
| | **(1,543,440)** | (1,454,328) |
| | **761,260** | 862,754 |

Commitments and Contingencies (Notes 13 and 14)

Approved on behalf of the Board:

**K. Barry Sparks** *(signed)*, Director

**Derek H.L. Buntain** *(signed)*, Director

# Cencotech Inc.

## CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

| For the years ended October 31, | 2008 | 2007 |
|---|---|---|
| | $ | $ |
| **REVENUE** | **1,503,435** | 1,041,203 |
| **COST OF SALES** | **719,866** | 455,441 |
| **GROSS PROFIT** | **783,569** | 585,762 |
| **EXPENSES** | | |
| Selling | **304,062** | 273,143 |
| General and administration (Note 13) | **398,435** | 570,468 |
| Loss on foreign exchange | **12,549** | 1,342 |
| Amortization | **11,610** | 34,333 |
| Interest on convertible debenture | **120,000** | 120,000 |
| Interest on secured debt (Note 13) | **26,025** | 44,041 |
| | **872,681** | 1,043,327 |
| **LOSS FROM OPERATIONS** | **(89,112)** | (457,565) |
| Gain on sale of intellectual assets and inventory (Note 11) | **-** | 1,351,319 |
| **INCOME (LOSS) BEFORE INCOME TAXES** | **(89,112)** | 893,754 |
| **INCOME TAXES** | | |
| Future (Note 10) | **-** | (215,000) |
| **NET INCOME (LOSS)** | **(89,112)** | 678,754 |
| **DEFICIT, beginning of year** | **(6,823,080)** | (7,501,834) |
| **DEFICIT, end of year** | **(6,912,192)** | (6,823,080) |
| **INCOME (LOSS) PER SHARE** (Note 9) | | |
| Basic | **(0.00)** | 0.03 |
| Diluted | **(0.00)** | 0.03 |

The accompanying notes are an integral part of these consolidated financial statements.

# Cencotech Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

| For the years ended October 31, | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income (loss) | **(89,112)** | 678,754 |
| Non-cash items: | | |
| Amortization | **11,610** | 34,333 |
| Gain on sale of intellectual assets and inventory (Note 11) | **-** | (1,351,319) |
| Accrued interest on secured debt | **16,522** | 44,041 |
| Write-off of future income tax asset | **6,973** | - |
| Future income taxes (Note 10) | **-** | 215,000 |
| | **(54,007)** | (379,191) |
| Changes in: | | |
| Accounts receivable | **(311,316)** | 586,506 |
| Parts inventory | **1,022** | 8,287 |
| Prepaid expenses | **(12,386)** | - |
| Accounts payable and accrued liabilities | **231,113** | (248,774) |
| Income taxes payable | **-** | (6,973) |
| Deferred revenue | **(62,241)** | 49,482 |
| | **(207,815)** | 9,337 |
| **INVESTING ACTIVITIES** | | |
| Transfer of showroom asset to inventory for sale | **3,671** | - |
| Purchase of intellectual assets and property and equipment | **-** | (15,097) |
| Proceeds from disposal of intellectual assets and inventory (Note 11) | **-** | 1,500,000 |
| | **3,671** | 1,484,903 |
| **FINANCING ACTIVITIES** | | |
| Increase in secured debt (Note 13) | **100,000** | - |
| Repayment of secured debt (Note 13) | **-** | (1,447,384) |
| | **100,000** | (1,447,384) |
| **NET INCREASE (DECREASE) IN CASH DURING THE YEAR** | **(104,144)** | 46,856 |
| **CASH, beginning of year** | **117,798** | 70,942 |
| **CASH, end of year** | **13,654** | 117,798 |
| **Supplemental cash flow information:** | | |
| Interest paid | **144,973** | 267,384 |
| Income taxes paid | **-** | 6,973 |

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS

Cencotech Inc. (the "Company") was formed under the provisions of the Business Corporations Act of Alberta on January 29, 1997 and continued under the provisions of the Business Corporations Act of Ontario on October 31, 1999.

The Company was formed to acquire and manage emerging high technology enterprises with sound business solutions for their customers. The Company's wholly-owned subsidiary, NamSys Inc. ("NamSys"), provides software and hardware systems solutions for currency management and processing for the banking and merchant industries principally in North America.

## 2. GOING CONCERN ASSUMPTION

These consolidated financial statements have been prepared on the assumption that the Company is a going concern, meaning that it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the normal course of operations. For the year ended October 31, 2008, the Company incurred a loss from operations of $89,112 (2007 - $457,565). As at October 31, 2008, the Company had a deficit of $6,912,192 (2007 – $6,823,080) and its current liabilities exceeded its current assets by $1,565,803 (2007 – $1,491,972). Continuance of the Company as a going concern is dependent upon achieving profitable operations and the continued financial support of its debt holders, who in turn are its largest shareholders. While these consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, historical performance and the current global economic turbulence and liquidity crisis cast substantial doubt upon the validity of this assumption. If the going concern assumption was not appropriate for these consolidated financial statements, then adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used. In the opinion of management, all adjustments considered necessary for fair presentation of the Company's financial position, results of operations and cash flows have been included. Operating results for the years presented are not necessarily indicative of the results to be expected for any future periods.

## 3. SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary and have been prepared in accordance with Canadian generally accepted accounting principles.

All significant intercompany transactions and balances have been eliminated.

**New accounting policies**

**a) Capital Disclosures**

Effective November 1, 2007, the Company adopted the recommendations of Section 1535, Capital Disclosures, of the CICA Handbook. This section establishes standards for disclosing information about a company's capital and how it is managed in order that a user of the financial statements may evaluate the company's objectives, policies, and processes for managing capital. Beyond additional disclosure, these new standards did not have an effect on our financial position or results of operations. The new disclosures are included in Note 12.

**b) Inventory**

Section 3031, Inventory, of the CICA Handbook replaces Section 3030 and establishes standards for the measurement of inventories, allocations of overhead, accounting for write-downs and disclosures. The new recommendations were adopted one year early, effective November 1, 2007, and had no material impact on the financial statements.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**c) Financial Instruments – Disclosures and Presentation**

Sections 3862, Financial Instruments – Disclosures, and 3863, Financial Instruments – Presentation, of the CICA Handbook replaced Section 3861, Financial Instruments – Disclosure and Presentation, and were adopted by the Company effective November 1, 2007. The new standards revise and enhance the disclosure requirements on the nature and extent of risks arising from financial instruments and how a company manages those risks. Beyond additional disclosure, the adoption of these new pronouncements did not have an effect on the Company's financial position or results of operations. The new disclosures are included in Note 7.

**Financial instruments**

All financial instruments are classified into one of the following five categories: held-for-trading ("HFT") assets or liabilities, held-to-maturity ("HTM") investments, loans and receivables, available-for-sale ("AFS") financial assets or other financial liabilities. HFT financial instruments are measured at fair value and all gains and losses are included in net income in the period in which they arise. AFS financial instruments are measured at fair value with revaluation gains and losses included in accumulated other comprehensive income until the instruments are derecognized or impaired. Loans and receivables, HTM investments and other financial liabilities are measured at amortized cost using the effective interest method.

The Company has made the following classifications:

| | |
|---|---|
| Cash | Held-for-trading |
| Accounts receivable | Loans and receivables |
| Assigned promissory note | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |
| Convertible debenture | Other liabilities |
| Secured debt | Other liabilities |
| Contingent debt | Other liabilities |

Transaction costs are expensed as incurred for financial instruments classified as HFT. For other financial instruments, transaction costs are capitalized on initial recognition.

The company accounts for regular purchases and sales of financial assets using trade-date accounting.

**Revenue recognition and deferred revenue**

Software License fees are recognized when: the products and services to be provided are contained in a contractual agreement signed by the customer; delivery of the software has occurred; all significant vendor obligations have been completed; fees are fixed and determinable; and collectibility of fees is reasonably assured.

Self-Service Systems and Peripheral sales are recognized when title passes, which coincides with shipment to the customer.

Systems maintenance fees relate to a defined period of time and are paid in advance. Deferred revenue is comprised of systems maintenance fees for which services have not yet been provided and customer deposits on purchase orders where the product is yet to be delivered. Revenue is recognized on a straight line basis over the term of the maintenance contract. Associated costs are recognized as incurred.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Foreign currencies**

Foreign currency transactions are translated into Canadian dollars at the rates prevailing on the dates of the transactions. Monetary assets and liabilities in foreign currencies are translated into Canadian dollars at the current year-end rates of exchange and non-monetary assets and liabilities at historical exchange rates. Revenues and expenses are translated at average rates in the month they occurred except for amortization, which is translated using the same rates as the related assets. Translation gains and losses are recorded in the statement of income.

**Parts inventory**

Parts inventory is stated at the lower of cost or net realizable value. Cost is determined on a first-in, first-out basis. Inventory is reviewed on an ongoing basis for impairment of its value. When events and circumstances indicate that the carrying amounts may not be recoverable, a write-down to estimated net realizable value is charged to income in the period such that a determination is made and disclosed as a provision until such time as the inventory is disposed of or sold.

**Intellectual assets and property and equipment**

Intellectual assets and property and equipment are recorded at cost less accumulated amortization and are amortized over their estimated useful lives as follows:

| | |
|---|---|
| Recognition technology – Hardware | 30% declining balance |
| Trademarks and patents | 20% straight-line |
| Office equipment | 20% declining balance |
| Showroom equipment | 3 years straight-line |

Leasehold improvements are amortized straight-line over the term of the lease.

Intellectual assets and property and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recovered. If the sum of the undiscounted future cash flows expected from use and residual value is less than the carrying amount, the long-lived asset is considered impaired. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its fair value.

**Use of estimates**

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates include allowance for doubtful accounts, useful lives of intellectual assets and property and equipment. Actual results could differ from those estimates.

**Accounting for income taxes**

The Company uses the asset and liability method for accounting for income taxes. Under the asset and liability method, assets or liabilities are recognized for the future income tax consequences attributable to differences between the financial statement carrying values and their respective income tax bases (temporary differences).

Future income tax assets and liabilities are measured using substantively enacted tax laws and rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The effect of changes in tax rates on future income tax assets and liabilities are included in income in the period of the enactment date. Future income tax assets are evaluated annually and if realization is not considered more likely than not, the value of the future tax asset is adjusted by a charge to income.

### Earnings per share

The Company uses the treasury method to compute the dilutive effect of options and the "if converted" method for convertible debt.

### Stock-based compensation plans

The Company has a stock option plan, which is described in Note 7. Compensation cost of options granted under the stock option plan are measured at the grant date based on a fair value of the award and are recognized over the related service period. Currently, no options are outstanding.

## 4. RECENT ACCOUNTING PRONOUNCEMENTS

### Going concern

CICA Handbook Section 1400, General Standards of Financial Statement Presentation, has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern. The Company will adopt the amendments to this section beginning November 1, 2008. Beyond additional disclosure, the adoption of this new pronouncement is not expected to have an effect on the Company's financial position or results of operations.

### International Financial Reporting Standards

The CICA plans to converge Canadian GAAP for public companies with International Financial Reporting Standards (IFRS) over a transition period that is expected to end in 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not yet been determined.

## 5. INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT

| | **October 31, 2008** | | |
|---|---|---|---|
| | **Cost** | **Accumulated Amortization** | **Net Book Value** |
| | **$** | **$** | **$** |
| Intellectual Assets | | | |
| Recognition technology – Hardware | **12,004** | **12,004** | **-** |
| Trademarks and patents | **100** | **-** | **100** |
| | **12,104** | **12,004** | **100** |
| Property and Equipment | | | |
| Office equipment | **159,873** | **139,910** | **19,963** |
| Showroom equipment | **6,039** | **3,739** | **2,300** |
| Leasehold improvements | **182,920** | **182,920** | **-** |
| | **348,832** | **326,569** | **22,263** |
| | **360,936** | **338,573** | **22,363** |

| | October 31, 2007 | | |
|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value |
| | $ | $ | $ |
| Intellectual Assets | | | |
| Recognition technology – Hardware | 12,004 | 12,004 | - |
| Trademarks and patents | 100 | - | 100 |
| | 12,104 | 12,004 | 100 |
| Property and Equipment | | | |
| Office equipment | 159,873 | 134,905 | 24,968 |
| Showroom equipment | 17,052 | 4,476 | 12,576 |
| Leasehold improvements | 182,920 | 182,920 | - |
| | 359,845 | 322,301 | 37,544 |
| | 371,949 | 334,305 | 37,644 |

## 6. CONVERTIBLE DEBENTURE

The convertible debenture in the principal amount of $1,000,000 (2007 - $1,000,000) is secured by a charge against the Company's assets. The debenture bears interest at 12% per annum payable monthly. The debenture was issued on December 28, 2001 with a conversion price of $0.40 per share and was originally repayable on December 31, 2002, if not previously converted into shares or redeemed under the terms of the debenture. The Company has the right to call the debenture for redemption at any time on five days notice. The debenture does not restrict the Company's ability to incur additional debt security and ranks behind the security of any bank indebtedness.

The maturity date was extended on a number of occasions between fiscal 2003 and 2006. On April 25, 2007, the Company reached agreement with the holder of the debenture to extend the maturity date of the debenture to September 30, 2007. In consideration, the conversion privilege on the debenture was amended such that the holder may convert the principal amount or any part thereof into common shares of Cencotech Inc. at $0.125 per share on or before maturity.

On February 22, 2008, concurrent with an extension agreement with the Secured Lender of the Company's subsidiary, the Company reached agreement with the holder of the debenture with effect from October 1, 2007, to extend the maturity date of the debenture to September 30, 2008, for no additional consideration.

On October 22, 2008, concurrent with an extension agreement with the Secured Lender of the Company's subsidiary, the Company reached agreement with the holder of the debenture with effect from October 1, 2008, to extend the maturity date of the debenture to September 30, 2009. In consideration, the conversion privilege on the debenture was amended such that the holder may convert the principal amount or any part thereof into common shares of Cencotech Inc. at $0.10 per share on or before maturity.

## 7. FINANCIAL INSTRUMENTS

### Risk Disclosures

The Company has exposure to credit risk, market risk and liquidity risk. The Company's primary risk management objective is to protect earnings and cash flow and, ultimately, shareholder value. The Company's Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis. Risk management strategies, as discussed below, are designed and implemented to ensure the Company's risks and the related exposure are consistent with the business objectives and risk tolerance.

#### a) Credit risk

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument held by the Company failed to meet its obligations in accordance with the terms and conditions of its contract with the Company or if there is a concentration of transactions carried out with the same counterparty. The carrying amount of financial assets represents the maximum credit exposure.

The Company's credit risk is primarily attributable to its accounts receivable. The amounts disclosed in the Consolidated Balance Sheets are net of allowances for doubtful accounts, estimated by the Company's management based on prior experience and their assessment of the current economic environment. The Company establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of accounts receivable. This allowance relates to individual exposures for accounts receivable that are considered impaired, which is defined as amounts outstanding beyond normal credit terms and conditions for the respective customers and, based upon management's evaluation, a risk of non-payment exists.

## 7. FINANCIAL INSTRUMENTS (continued)

In addition, the Company's wholly-owned subsidiary, NamSys Inc., on December 15, 2006, assigned a promissory note that was to the Secured Lender (a company owned by the President of Cencotech Inc.) as partial paydown on liabilities owed to the Secured Lender (Notes 11 and 13(c)). The promissory note bears interest at 7% per annum payable monthly by equal installments of $27,789 blending interest and principal, and has a principal balance outstanding as at October 31, 2008, of $346,931 (2007 - $644,707). There are thirteen monthly payments remaining and the Company does not believe an allowance against this promissory note is required, as there remains intellectual assets held in escrow as security.

The Company is exposed to concentration of credit risk on the accounts receivable from its customers. As at October 31, 2008 approximately 89% of the trade accounts receivable balances are owed from three customers (2007 – 87% owed from three customers).

The Company's exposure to credit risk with its customers is influenced mainly by the individual characteristics of each customer. The Company closely monitors extensions of credit and has not experienced significant credit losses in the past. As at October 31, 2008 and 2007, the Company believes that its allowance for doubtful accounts is sufficient to reflect the related credit risk, indicated as follows:

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Neither impaired nor past due | **171,904** | 16,727 |
| Impaired | **2,024** | - |
| Not impaired and past due in the following periods: | | |
| 31 to 60 days | **30,651** | 2,120 |
| 61 to 90 days | **77,828** | 4,736 |
| Over 90 days | **73,913** | 19,174 |
| Allowance for doubtful accounts | **(2,024)** | - |
| Trade receivables | **354,296** | 42,757 |
| Other receivables | **171** | 394 |
| Total accounts receivable | **354,467** | 43,151 |

During the 2008 fiscal year, the Company charged $2,024 (2007 – nil) to allowance for doubtful accounts.

## 7. FINANCIAL INSTRUMENTS (continued)

### b) Market risk

Market risk is the risk of loss that may arise from changes in market prices, such as foreign exchange rates and interest rates, which will affect the Company's income or the value of its financial instruments.

The Company operates in American markets giving rise to exposure to market risks from changes in foreign exchange rates. Approximately 89% of the Company's sales revenues are denominated in U.S. dollars (2007 – 94%). The Company is exposed to fluctuations on expenditures which are denominated in U.S. dollars. These potential currency fluctuations could have a significant impact on the cost of producing goods and services sold and thereby the profitability of the Company. At October 31, 2008 accounts receivable included U.S. $294,062 (2007 - U.S. $41,787) and accounts payable included U.S. $263,492 (2007 – U.S. $42,998). The U.S. dollar denominated accounts receivable and accounts payable balances are not substantially different and act as a natural hedge such that the Company is not exposed to significant foreign exchange risk. The Company monitors the movement in currency exchange rates and, on that basis, decides on the appropriate measures to take. Exchange rates at the present time are such that no measures are currently being taken.

The convertible debenture, secured debt, contingent debt and assigned promissory note bear interest at a fixed rate, and as such is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates. As these financial instruments are classified as other liabilities or loans and receivables, there is no potential impact on net income.

Interest income on the assigned promissory note of $35,696 (2007 – $50,391) exactly off-sets the interest expense on the contingent debt.

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due or can do so only at excessive cost. The Company has significant financial liabilities outstanding including accounts payable and accrued liabilities, convertible debenture, secured debt and contingent debt. The Company is exposed to the risk that it may not have sufficient liquid assets to meet its commitments associated with these financial liabilities.

The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, without incurring unacceptable losses or risking damage to the Company's reputation. To the extent that the Company does not believe it has sufficient liquidity to meet these obligations, management will consider securing additional funds through debt or equity transactions. The Company manages its liquidity risk by continuously monitoring forecast and actual gross profit and cash flows from operations.

The following are the contractual maturities, excluding interest payments, reflecting undiscounted future cash disbursements of the Company's financial liabilities at October 31, 2008:

| | Total | Less than 1 year | 1 to 2 years |
|---|---|---|---|
| | $ | $ | $ |
| Accounts payable and accrued liabilities | 565,387 | 565,387 | - |
| Convertible debenture | 1,000,000 | 1,000,000 | - |
| Secured debt | 326,604 | 326,604 | - |
| Contingent debt | 346,931 | 319,303 | 27,628 |
| | 2,238,922 | 2,211,294 | 27,628 |

## 7. FINANCIAL INSTRUMENTS (continued)

### Fair Value

The carrying value of accounts receivable, accounts payable and accrued liabilities, convertible debenture and secured debt approximates the fair value due to the relatively short-term maturity of these financial instruments. The fair values of the assigned promissory note and contingent debt are approximately $330,000, calculated using a 14% discount rate, which is the rate originally used for valuation purposes. It would be equally reasonable to use a discount rate of 12% or 16%. The resulting fair values do not vary significantly using these alternative assumptions given the relatively short-term nature of these instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

## 8. SHARE CAPITAL

### Authorized

Unlimited number of common shares
Unlimited number of preferred shares

### Issued and outstanding

Issued common shares of the Company are as follows:

| | Number of Shares | Stated Capital |
|---|---|---|
| | | $ |
| **Balance, October 31, 2008 and 2007** | **22,036,332** | **5,368,752** |

Common shares reserved for issuance are a result of: (i) grants of options under a share option plan established by the Company whereby officers, directors and selected employees can be granted options to purchase common shares of the Company; and (ii) common shares reserved for issuance with respect to the outstanding convertible debenture (Note 5).

There are a total of 10,000,000 common shares reserved for issuance (2007 – 8,000,000) as follows

| | Price | Number |
|---|---|---|
| Balance, October 31, 2006 | | 6,060,606 |
| Convertible debenture - conversion feature amended | 0.125 | 1,939,394 |
| Balance, October 31, 2007 | | 8,000,000 |
| Convertible debenture - conversion feature amended | 0.10 | 2,000,000 |
| **Balance, October 31, 2008** | | **10,000,000** |

## 8. SHARE CAPITAL (continued)

### Share option plan

The Company has established a share option plan under which officers, directors and selected employees can be granted options to purchase common shares of the Company. The aggregate number of shares issuable under the plan and any previous plan cannot exceed 2,500,000 in total, and the number of shares issuable to any one person under any option plan cannot exceed 5% of the total number of common shares outstanding from time to time. Options granted vest evenly on an annual basis over a three-year period. The exercise price of the option is fixed at the date of grant and may not be less than the fair market value per share of the common stock on that date. Any unexercised options that expire or are forfeited, thirty days after an employee ceases to be employed by the Company, become available again for issuance under the plan. The shareholders approved the existing plan on May 1, 2000. Currently, no options are outstanding.

## 9. INCOME PER SHARE

For fiscal 2008, the weighted average number of shares outstanding used to calculate basic income per share was 22,036,332 (2007 – 22,036,332).

In determining diluted income per share, the weighted average number of shares outstanding was increased by 8,169,399 (2007 – 7,064,840) for the effect of dilutive potential common shares issuable under conversion of the convertible debenture. Net income was increased by $79,272 (2007 - $76,656) for the after-tax impact of eliminating interest if the debenture was converted.

## 10. INCOME TAXES

The provision for income taxes reflects an effective tax rate that differs from the corporate tax rate for the following reasons:

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Combined basic Canadian federal and provincial income tax rate | **33.94%** | 36.12% |
| Provision (recovery) for income taxes based on above rate | **(30,245)** | 322,824 |
| Adjustments to determine taxable income | **6,976** | (170,432) |
| Utilization of loss carry forward | **-** | (152,392) |
| Recognition (application) of benefit of losses carried forward | **-** | (215,000) |
| Valuation allowance | **23,269** | - |
| Recovery (provision) of income taxes per Statements of Income and Deficit | **-** | (215,000) |

## 10. INCOME TAXES (continued)

The nature and tax effects of the temporary differences that give rise to the significant future income tax assets and future income tax liabilities are presented below:

| | **2008** | 2007 |
|---|---|---|
| | **$** | $ |
| Future income tax asset is comprised of: | | |
| Losses carried forward | **1,321,000** | 1,486,000 |
| Investment tax credits | **253,000** | 253,000 |
| Property and equipment | **136,000** | 135,000 |
| Corporate minimum taxes | **6,973** | 6,973 |
| | **1,716,973** | 1,880,973 |
| Valuation allowance | **(1,716,973)** | (1,874,000) |
| Future income tax asset | **-** | 6,973 |

The Company has losses available for carry forward to reduce future years' income taxes which expire as indicated below:

| | **Provincial** | **Federal** |
|---|---|---|
| | **$** | **$** |
| 2009 | **411,000** | **411,000** |
| 2010 | **1,928,000** | **1,928,000** |
| 2014 | **1,074,000** | **1,074,000** |
| 2015 | **458,000** | **458,000** |
| 2026 | **286,000** | **286,000** |
| 2027 | **139,000** | **139,000** |
| 2028 | **259,000** | **259,000** |
| | **4,555,000** | **4,555,000** |

The Company has available investment tax credits (ITCs) of approximately $253,000 to reduce future income taxes payable, expiring $73,000 in 2008, $129,000 in 2009, and $51,000 in 2010. However, on January 21, 2008, the Federal Finance Minister announced that the government intends to extend the carryforward period for unused federal ITCs earned by Canadian businesses between 1998 and 2005 to 20 years from the current 10. Credits earned after 2005 are already eligible for the 20-year carryforward. If enacted, this would extend the carryforward period of the Company's ITCs to between 2018 and 2020.

Reasonable assurance does not exist that the tax benefit of losses and ITCs will be realized in whole or in part in future periods and accordingly a future tax asset has not been reflected in these financial statements.

## 11. SALE OF INTELLECTUAL ASSETS AND INVENTORY

On December 15, 2006, the Company's wholly-owned subsidiary, NamSys Inc., entered into an Asset Purchase Agreement to sell intellectual property rights and inventory related to the Commercial Self Serve products to an arms length third party. The purchase price of $1,500,000 was comprised of $600,000 cash and a $900,000 promissory note bearing interest at 7% per annum payable monthly by 36 equal installments blending interest and principal. To assure the buyer fulfils its commitments and obligations pursuant to the Asset Purchase Agreement, the intellectual property that was sold under this Agreement has been assigned to an escrow agent until the buyer fulfils its commitments and obligations.

### 11. SALE OF INTELLECTUAL ASSETS AND INVENTORY (continued)

Upon closing the $900,000 promissory note was assigned by NamSys Inc. to the Secured Lender (Note 13(c)) as partial payment of the secured debt. In the event the buyer defaults in payment under the promissory note, the Secured Lender has the right to re-assign the promissory note to NamSys Inc. and the indebtedness then owing by NamSys Inc. to the Secured Lender shall be increased by the amount equal to the amount of principal which remains unpaid under the promissory note at the time of default.

| | $ |
|---|---|
| Proceeds from sale | 1,500,000 |
| Less carrying value of items sold: | |
| Inventory | 131,779 |
| Intellectual assets | 16,902 |
| Gain on sale of intellectual assets and inventory | 1,351,319 |

### 12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as the aggregate of its convertible debenture, secured debt, contingent debt, share capital and deficit. Its objectives when managing capital are to ensure that the Company will continue as a going concern, so that it can provide products and services to its customers and returns to its shareholders.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances.

The Company is not subject to any externally imposed capital requirements or debt covenants, and does not presently utilize any quantitative measures to monitor its capital. The Company's overall strategy with respect to management of capital remains unchanged from the year ended October 31, 2007.

### 13. RELATED PARTY TRANSACTIONS AND CONTINGENT DEBT

The following summarizes the Company's related party transactions:

a) Rent and administration expenses in the amount of $31,550 were incurred in the year ended October 31, 2008 (2007 - $33,920) from a company that is partially owned by the President of the Company.

b) Included in accounts payable and accrued liabilities at October 31, 2008, are amounts due to directors of $67,000 (2007 – $57,200) and to a company that is partially owned by the President of the Company $36,800 (2007 – $14,250).

c) In 2003, a company controlled by the President of Cencotech ("the Secured Lender") entered into a new loan agreement ("the Credit Facility") with the Company's subsidiary on the basis of security purchased from the Company's bank. The Credit Facility with NamSys Inc. ("NamSys") replaced the previous bank loan and temporary loan arrangements which were retired. Interest at the rate of 15% per annum was calculated and compounded monthly until December 15, 2006 at which time the intellectual property rights and inventory related to the Commercial Self Serve products were sold and the Credit Facility paid down. The Credit Facility was renegotiated at that time, including a reduction in the credit availability to a maximum of $200,000 and the interest rate was reduced to 10% per annum payable monthly. The Credit Facility is secured by a general security agreement constituting first ranking security interest in all property of the Company's subsidiary and a postponement and assignment of claim signed by the Company.

## 13. RELATED PARTY TRANSACTIONS AND CONTINGENT DEBT (continued)

Upon closing the sale of the intellectual property rights and inventory related to the Commercial Self Serve products in December, 2006, the $900,000 promissory note issued by the buyer as part consideration for the sale (Note 11) was assigned by NamSys to the Secured Lender as partial payment of the secured debt. In the event the buyer defaults in payment under the promissory note, the Secured Lender has the right to re-assign the promissory note to NamSys and the indebtedness then owing by NamSys to the Secured Lender shall be increased by the amount equal to the principal which remains unpaid under the promissory note at the time of default (the “Contingent Debt”).

On February 22, 2008, concurrent with an extension agreement with the holder of the debenture of the Company, the Secured Lender agreed with effect from October 1, 2007, to extend the maturity date of the Credit Facility to September 30, 2008 and to increase the maximum principal amount of the facility to $250,000. Subsequently, the maximum principal amount of the facility was increased to $300,000. The changes to the Credit Facility did not involve additional consideration.

On October 22, 2008, concurrent with an extension agreement with the holder of the debenture of the Company, the Secured Lender agreed with effect from October 1, 2008, to extend the maturity date of the Credit Facility to September 30, 2009, for no additional consideration.

The loan negotiations with the related party were undertaken by unrelated members of the parent Company’s Board of Directors, expressly established as an ad hoc committee for the purpose of acquiring the necessary financing for the Company.

As at October 31, 2008, the indebtedness under the Credit Facility is $326,604 including $26,604 in interest payable (2007 – $210,082 and $10,082 respectively). Interest expense related to the Credit Facility during the year was $26,025 (2007 – $44,041).

These transactions, with the exception of (c), are in the normal course of operations and all transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the parties.

## 14. COMMITMENTS

The Company has leased their operating premises until December 31, 2010, at the following amounts each fiscal year:

| | $ |
|---|---|
| 2009 | 60,000 |
| 2010 | 60,000 |
| 2011 | 10,000 |

## 15. SALES TO MAJOR CUSTOMERS

In fiscal 2008, three customers accounted for 9.1%, 12.4% and 46.9% respectively of the Company’s consolidated revenues (2007 – 10.8%, 24.1% and 39.3% respectively).

## 16. SEGMENT INFORMATION

The Company recognized revenues of $1,330,935 (2007 - $869,704) in sales to U.S. customers and $172,500 (2007 - $171,499) in sales to customers in Canada.

All of the Company’s intellectual assets, property and equipment are held in Canada.