

## **Cencotech Inc.**

### **MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED OCTOBER 31, 2008**

The following is a discussion and analysis of the results of operations and financial condition of the Company for the year ended October 31, 2008 and 2007 along with certain factors that may affect the Company's prospective financial condition and results of operations.

**The discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Actual events could differ from those anticipated in these forward-looking statements.**

#### **Overview**

The Company is an active participant in the development and production of currency inventory management and control systems for financial institutions, large retailers, casino and mass transit operators, and various government agencies.

The Company's strategic direction has been to enhance its position as a supplier of efficient solutions. Part and parcel of this strategy has been to invest in its existing business, continue to introduce new products, research opportunities in new industry sectors and complete strategic alliances to extend the technological and market reach of the Company. To achieve the objectives of these strategies it is critical that alliances reached with larger participants in the market are actively productive. While the Company achieved a profitable year in fiscal 2007, a loss was experienced for the year ended October 31, 2008, and the alliances entered into by the Company have not yet reached a point where they are generating consistent sales. As a consequence, the Company continues to reevaluate its direction and is considering a number of options in order to realize upon the strategic value of its innovative solutions.

The Company's software products have demonstrated their value in use to the licensees of the products. The DOS based Currency Controller product has a history of solid performance in major North American financial institutions. The next generation of this product, a 32-bit, Java based iteration of the Currency Controller, trademarked by the Company as "CC-32™", continues to be adopted by users in the market as a replacement for the DOS version of the Currency Controller and as a replacement for competitor systems with fewer features. As this market has evolved over the years, the Company's competitors are offering a variety of supplementary systems in concert with currency management and control software. The open design nature of the CC-32 solution and its ability to interface to other systems employed by the user is a major selling point of this product. The features of the CC-32™ coupled with the apparent new direction of the Federal Reserve Bank in the United States to off-load some of its currency processing functions to the commercial banks, may be expected to lead to increased customer interest in this product.

The Company's Commercial Self Service products, specifically the CashNET product, are now being accepted by retail operators as efficient and safe currency counting and management devices. As outlined below, in early fiscal 2007 the Company entered into a new alliance with a larger participant in the United States market consistent with our strategy of extending the market reach for the Company's products.

On December 15<sup>th</sup>, 2006, the Company's wholly-owned subsidiary, NamSys Inc. ("NamSys"), completed an agreement to sell intellectual property rights and inventory related to the Commercial Self Serve products for \$1,500,000 and certain other consideration as set out below. Under this agreement, NamSys continues to sell the self-service products to its clients and will in addition receive royalties from the purchaser on sales of these products to the marketplace by parties other than NamSys. Further, NamSys will benefit from software license fees for the use of NamSys' software employed in the self-service products.

While the Company has historically funded its activities through cash flow from operations, the issuance of debt and the sale of common shares and warrants or convertible debentures, there can be no assurance that new third party funds will be available on terms acceptable to the Company.

## SELECTED ANNUAL INFORMATION

The table below presents selected annual information derived from the Company's financial statements for each of the three most recently completed financial years ending October 31:

	2008	2007	2006
	\$	\$	\$
Total Revenue	1,503,435	1,041,203	1,976,348
Net Loss from Operations	(89,112)	(457,565)	(112,058)
Net Income (Loss)	(89,112)	678,754	209,517
Net Income (Loss) per share:			
Basic	(0.00)	0.03	0.01
Diluted	(0.00)	0.03	0.01
Total Assets	761,260	862,754	1,152,216
Total Long Term Liabilities	27,628	346,931	-

The 2008 revenues have increased from 2007, but are still below the level experienced in 2006. Part of the decrease in revenues is due to the transitioning of manufacturing of the Commercial Self Service products from Canada to the United States, concurrent with developing a new version of the "CashNET" system, resulting in delivery delays in obtaining product from the manufacturer. From the beginning of the 2007 fourth quarter through the second fiscal quarter of 2008, the Company had been unable to completely fulfill outstanding customer orders. The Company worked closely with the supplier to help resolve the manufacturing issues and believes that all issues have now been addressed and resolved. Customers used the third quarter of 2008 to test the new product version to ensure specifications and requirements are satisfied. With customer testing now successfully completed, the Company believes the proven value of the CashNET will be realized through fulfillment of customer demand in 2009.

The sales cycle for the Company's products tends to be protracted and the unit selling prices are relatively high. These factors together with a relatively low number of transactions can lead to revenue fluctuations quarter to quarter and year to year.

## Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended October 31, 2008:

	Fiscal quarter end							
	<u>Oct. 31</u> <u>2008</u>	<u>July 31</u> <u>2008</u>	<u>April 30</u> <u>2008</u>	<u>Jan. 31</u> <u>2008</u>	<u>Oct. 31</u> <u>2007</u>	<u>July 31</u> <u>2007</u>	<u>April 30</u> <u>2007</u>	<u>Jan. 31</u> <u>2007</u>
	(in thousands of dollars)							
Revenue	479	312	334	378	218	328	342	153
Gross profit	167	131	228	257	136	181	150	119
Net income (loss)	(40)	(115)	13	54	(59)	(66)	(122)	926
Net income (loss) per Share:								
Basic	(0.00)	(0.01)	0.00	0.00	(0.00)	(0.00)	(0.01)	0.04
Diluted	(0.00)	(0.00)	0.00	0.00	(0.00)	(0.00)	(0.01)	0.04

## Results of Operations

*Three months ended October 31, 2008 compared to Three months ended October 31, 2007*

### **Revenue**

	2008	2007	Change	Change %
	\$	\$	\$	
Software	158,988	111,271	47,717	42.9%
Self-service systems	315,586	93,349	222,237	238.1%
Peripheral resales	4,536	13,872	(9,336)	-67.3%
	479,110	218,492	260,618	119.3%

Revenues in the three months ended October 31, 2008 increased in comparison to the same period in the prior year. The Company's total sales for the three months ended October 31, 2008 were \$479,110 as compared to \$218,492 for the corresponding period in 2007, an increase of \$260,618 or 119.3%. Revenue in the fourth quarter of 2008 was mostly from the sale of self-service systems whereas software comprised the majority of revenue in the year earlier quarter. As noted earlier, the sales cycle of the Company's products is quite long and unit selling prices are relatively high, leading to revenue fluctuations period to period.

*Software Sales* - The Company generates software revenue from the sale of license agreements to use its software products, upgrading existing license holder's systems, training, consulting and from recurring revenues for maintenance and product support. The majority of

the Company's customers renew their product support agreements annually, in order to stay current with new features and developments.

Software revenue totaled \$158,988 for the three months ended October 31, 2008, an increase of \$47,717 or 42.9% as compared to the corresponding three months the previous year. Currency Controller license revenue in the fourth quarter of 2008 was nil compared to nil in the fourth quarter of 2007. In the fourth quarter, 2008, software revenue represented 33.2% of the total revenue for the quarter as compared to 50.9% in 2007. In the fourth quarter of 2008 revenue related to upgrading existing systems of \$51,680 represents an increase of \$33,035 compared to \$18,645 from the corresponding period in 2007. Consulting revenue in the fourth quarter of 2008 was \$4,280 compared to \$990 in the fourth quarter of 2007.

Recurring product support revenue for the three months ended October 31, 2008 totaled \$103,028 compared to \$91,636 for the corresponding three months the previous year, an increase of \$11,392 or 12.4%. Recurring revenue represented 21.5% of total sales revenue in the three months ended October 31, 2008, as compared to 41.9% in the same three months of fiscal 2007.

*Self-service System Sales* - Self-service system sales included the sale of CashNET and Retail Express machines, and the Coin Acceptor accessory.

As identified above, the Company's wholly-owned subsidiary completed an agreement in December 2006 to sell intellectual property rights and inventory related to the Commercial Self Serve products. Under this Agreement, the Company continues to sell the self-service products to its clients and will in addition receive royalties on sales of these products to the marketplace by parties other than the Company. Sales of self-service products in the October 31, 2008 quarter at \$315,586 were up from \$93,349 in the same period of 2007, an increase of 238.1%. As mentioned above, the Company worked closely with the supplier to help resolve the manufacturing issues noted previously and believes that all issues have now been addressed and resolved.

Self-service product revenue in the fourth quarter of 2008 represented 65.9% of total revenue as compared to 42.7% in the 2007 period.

*Peripheral Resales* - Peripheral resales record the sale of other vendors' products, to the Company's clients, concurrent with the implementation of a solution by the Company. The peripherals are not integral parts of the Company's systems, but may be required to operate such systems. If the client does not already own such peripherals, the Company acts as a reseller of such products. Peripheral products include computer processing units, optical imaging scanners and upgraded telecommunications circuit boards. The sale of peripherals during the three months ended October 31, 2008 was \$4,536 as compared to \$13,872 in the comparable period of fiscal 2007, a decrease of \$9,336 or 67.3%; consistent with the reduced sales results of the Company's products since the beginning of the 2007 fourth quarter, as noted earlier.

### **Cost of Goods Sold**

*Three months ended October 31, 2008 compared to Three months ended October 31, 2007*

Cost of goods sold for the three months ended October 31, 2008 was \$312,047 compared to \$82,836 in the corresponding period in 2007. The corresponding gross margins

were 34.9% in 2008 and 62.1% in 2007. The total gross margin is affected by the sales mix of the three product groups which have different gross margins.

Software margin for the three months ended October 31, 2008 was 75.6% as compared to 97.1% in the three months ended October 31, 2007.

The self-service systems gross margin in the October 31, 2008 quarter was 14.4% as compared to 28.1% in the same period of 2007.

The margin achieved on peripheral sales in the fourth quarter of 2008 was \$1,357 or 29.9% as compared to \$1,371 or 9.9% in the 2007 same period.

### **Gross Profit**

*Three months ended October 31, 2008 compared to Three months ended October 31, 2007*

The sales mix between software, self-service systems and peripherals can dramatically impact the Company's Gross Profit in any given reporting period. Gross Profit can also be affected by changes in the exchange rate between Canadian and U.S. dollars. As a result of the sales mix, the overall Gross Profit achieved in the fourth quarter of fiscal 2008 was \$167,063 or 34.9%, compared to Gross Profit for the corresponding period in 2007 of \$135,656 or 62.1%, a decrease in Gross Margin percentage of 27.2 percentage points. The principal reason for the decline in the Gross Profit from fourth quarter 2007 to 2008 is the sales mix of products period compared to period as set out above.

### **Selling Expense**

*Three months ended October 31, 2008 compared to Three months ended October 31, 2007*

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. Selling expenses for the three months ended October 31, 2008 were lower than the same period last year. Selling expenses for the fourth quarter of 2008 totaled \$81,097, a decrease of \$12,951 or 13.8% from \$94,048 in the corresponding period of 2007. Selling expense was 16.9% of revenue in the fourth quarter of 2008 as compared to 43.0% in the 2007 same quarter, recognizing that revenues in the 2008 period were up \$260,618 or 119.3% from the 2007 fourth quarter.

### **General and Administrative Expenses**

*Three months ended October 31, 2008 compared to Three months ended October 31, 2007*

General and administrative ("G&A") expense consists primarily of salaries, benefits and overhead expenses including those related to the software programming staff, corporate maintenance charges, occupancy, professional fees and travel.

G&A expense totaled \$82,800 in the three months ended October 31, 2008 as compared to \$99,021 in 2007, a decrease of \$16,221 or 16.4%. As a result of the write-off of a historical payables balance of \$52,476, that the Company assessed as no longer meeting the definition of a liability, and the receipt of an unrelated tax notice of reassessment regarding 2001 which created a current period expense of \$24,563, G&A expenses were impacted downward by net \$27,913 in the 2008 fourth quarter as compared to the year earlier same quarter.

Due to the items noted above and the higher level of sales in the last three months of fiscal 2008 versus 2007, the G&A expense ratio as compared to revenue was 17.3% in the fourth quarter of 2008 as compared to 45.3% in the 2007 fourth quarter.

### **Amortization**

Amortization for the three months ended October 31, 2008 of \$5,431 decreased by \$708 or 11.5% from \$6,139 in the same period of 2007. The decrease in amortization in the 2008 quarter, and consistent with prior quarters, is a result of the Company not incurring expenditures for intellectual assets and property and equipment in the 2008 period.

### **Interest Expense on Convertible Debentures and Secured Debt**

The principal amount of the convertible debenture outstanding at October 31, 2008 and 2007 was \$1,000,000. In the three months ended October 31, 2008 the convertible debenture interest was \$30,164. As a result of calendar 2008 being a leap year, with an extra day in February, this is a slight decrease from \$30,247 in the comparable period in 2007.

The Company's secured debt is currently \$326,604 (October 31, 2007 - \$210,082) and bears interest at 10% per annum, reduced from 15% effective December 15, 2006. Interest expense on the secured debt in the October 31, 2008 quarter was \$7,562 (2007 - \$5,041).

### **Net Income and Income Per Share**

As a result of the factors discussed above, the loss for the three months ended October 31, 2008 was \$39,990 as compared to a loss of \$59,957 in the three months ended October 31, 2007.

Three months ended October 31,

	2008	2007
	\$	\$
Net loss	(39,990)	(59,957)
Loss per share:		
Basic	(0.00)	(0.00)
Diluted	(0.00)	(0.00)

For the three months ended October 31, 2008, the weighted average number of shares outstanding used to calculate basic income per share was 22,036,332 (2007 – 22,036,332).

*Year ended October 31, 2008 Compared to Year ended October 31, 2008*

### **Revenue**

	2008	2007	Change	Change %
	\$	\$	\$	
Software	825,867	550,948	274,919	49.9%
Self-service systems	652,839	413,798	239,041	57.8%
Peripheral resales	24,729	76,457	(51,728)	-67.7%
	1,503,435	1,041,203	462,232	44.4%

The Company's total revenue for the year ended October 31, 2008 was \$1,503,435 as compared to \$1,041,203 for the corresponding period in 2007, an increase of \$462,232 or 44.4%. Sales of software and self-service systems were substantially higher than the same period in 2007. Consequently, revenue for the year ended October 31, 2008 improved from the corresponding period in 2007.

*Software Sales* - Software revenue totaled \$825,867 for the year ended October 31, 2008, an increase of \$274,919 or 49.9% as compared to the previous year. The software revenue increase was the result of CC-32™ license sales revenue in fiscal 2008 of \$325,710 compared to the weaker results of \$67,540 in 2007. The CC-32™ product has a large unit price. Consequently, a small change in units sold in any particular period has a noticeable impact on revenue.

The majority of the Company's customers renew their product support agreements annually, in order to stay current with new features and developments. Recurring product support revenue for the twelve months ended October 31, 2008 totaled \$389,547 compared to \$375,903 for the corresponding twelve months the previous year, an increase of \$13,644 or 3.6%. Recurring revenue represented 25.9% of total sales revenue in fiscal year 2008, as compared to 36.1% in fiscal year 2007. Software revenue represented 54.9% of total revenue in 2008 as compared to 52.9% in 2007.

*Self-service System Sales* - Self-service system revenue in the twelve months of fiscal 2008 totaled \$652,839 an increase of \$239,041 or 57.8% from \$413,798 in the twelve months of fiscal 2007. Self-service revenue represented 43.4% of total revenue in 2008 as compared to 39.7% for 2007, and reflects the resolution of delays in the supply chain deliveries noted previously.

*Peripheral Resales* - Peripheral resales record the sale of other vendors' products, to the Company's clients, concurrent with the implementation of a solution by the Company. The peripherals are not integral parts of the Company's systems, but may be required to operate such systems. If the client does not already own such peripherals, the Company acts as a reseller of such products. Peripheral products include computer processing units, optical imaging scanners and upgraded telecommunications circuit boards. Revenue from the sale of peripherals during the twelve months ended October 31, 2008 totaled \$24,729 as compared to \$76,457 in the fiscal 2007 period, a decrease of \$51,728 or 67.7%. In the twelve months ended October 31, 2008, Peripheral Resale revenue represented 1.6% of total revenue, as compared to 7.3% in fiscal 2007.

### **Cost of Goods Sold**

*Year ended October 31, 2008 compared to Year ended October 31, 2007*

Cost of goods sold for the year ended October 31, 2008 was \$719,866 compared to \$455,441 in the corresponding period in 2007. The corresponding gross margins were 52.1% in 2008 and 56.3% in 2007. The overall gross margin for fiscal 2008 decreased from the comparable period in fiscal 2007 as a result of the change in sales mix.

The higher margin software revenue increased as a percentage of total revenue to 54.9% in the twelve months of 2008 from 52.9% in the twelve months of 2007. The software gross margin in the 2008 period was 78.2% as compared to 2007 at 81.6%.

The Self-service systems gross margin for the year ended October 31, 2008 was 19.4% as compared to 25.2% in the year earlier period. The CashNET product accounted for \$495,660 of the \$652,839 self-service revenue in the year ended October 31, 2008 and \$363,825 of the \$413,798 in the corresponding period in 2007. Sales volumes for this segment of the business were impacted in the last half of 2008 positively as noted earlier.

The margin achieved on the sale of peripheral items in fiscal 2008 was 44.1% as compared to 42.3% in the corresponding period of 2007. The difference in dollar terms is not significant.

### **Gross Profit**

#### *Year ended October 31, 2008 Compared to Year ended October 31, 2007*

The sales mix between software, self service systems and peripherals can dramatically impact the Company's Gross Profit in any given reporting period. Gross Profit can also be affected by changes in the exchange rate between Canadian and U.S. dollars. As a result of the sales mix and the strength of the Canadian dollar versus the U.S. dollar, the Gross Profit achieved in fiscal 2008 was \$783,569 or 52.1% as compared to Gross Profit for the corresponding period in 2007 of \$585,762 or 56.3%, a decrease in Gross Margin percentage of 4.2 percentage points. This change is the result of the difference in the sales mix as outlined; higher margin software revenue represented 54.9% of total revenue for the year ended October 31, 2008 as compared to 52.9% in 2007, and lower margin self-service revenue represented 43.4% of total revenue in the twelve months ended October 31, 2008 as compared to 39.7% for the corresponding period in 2007.

### **Selling Expense**

#### *Year ended October 31, 2008 Compared to Year ended October 31, 2007*

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. In fiscal 2008, selling expense increased \$30,919 or 11.3% to \$304,062 from \$273,143 in 2007. This increase is primarily because the number of sales staff was increased in an effort to generate higher levels of software sales. As a percentage of sales, selling expense was 20.2% in the year ended October 31, 2008 as compared to 26.2% in the corresponding 2007 period.

### **General and Administrative Expenses**

#### *Year ended October 31, 2008 Compared to Year ended October 31, 2007*

General and administrative ("G&A") expense consists primarily of salaries, benefits and overhead expenses including those related to the software programming staff, corporate maintenance charges, occupancy, professional fees and travel.

G&A expense totaled \$398,435 in fiscal 2008 as compared to \$570,468 in 2007, a period-over-period reduction of \$172,033 or 30.2%. Legal costs of \$40,000 were incurred in the first quarter of 2007 related to the sale of the Commercial Self Serve products' intellectual property rights and related inventory. Also, as a result of higher sales in the twelve months ended October 31, 2008, a greater proportion of G&A expenses were absorbed into product costs. This impacted G&A expense downward by \$56,869 in fiscal 2008 as compared to the year earlier same period. Furthermore, a reduction of administrative and development staffing

helped reduce the salaries and benefits component of G&A by \$48,203 in the year ended October 31, 2008 as compared to the corresponding period in 2007. Finally, as noted before, the write-off of a historical payables balance of \$52,476, that the Company assessed as no longer meeting the definition of a liability, and the receipt of an unrelated tax notice of reassessment regarding 2001 which created a current period expense of \$24,563, impacted G&A expense downward by net \$27,913.

G&A expense ratio as a percentage of revenue was 26.5% for the year ended October 31, 2008 as compared to 54.8% in the corresponding 2007 period; a decrease of 28.3 percentage points from 2007.

### ***Amortization***

Amortization for the twelve month period ended October 31, 2008 of \$11,610 decreased by \$22,723 or 66.2% from \$34,333 in the 2007 period, consistent with the sale of patents and trademarks sold with the Commercial Self-Service manufacturing operations.

### ***Interest Expense on Convertible Debentures and Secured Debt***

The principal amount of the convertible debenture outstanding at October 31, 2008 and 2007 was \$1,000,000. Convertible debenture interest was \$120,000 in 2008 and 2007.

The Company's secured debt is currently \$326,604 (October 31, 2007 - \$210,082) and bears interest at 10% per annum, reduced from 15% effective December 15, 2006. Interest expense on the secured debt to October 31 in 2008 was \$26,025 (2007 - \$44,041).

### ***Provision for Income Taxes***

The basic rate of 33.94% was applied to pre-tax income in 2008 (2007 - 36.12%). However, the resulting provision for income taxes recoverable was completely offset by the valuation allowance. In the fourth quarter of 2006 there was \$215,000 of future tax benefit recognized as it was determined more likely than not that this benefit would be realized. This benefit was applied in the first quarter of 2007.

The Company and its subsidiary have losses from prior periods available for carry forward to reduce future years' income for tax purposes. These losses will expire between 2009 and 2028 if not used.

The Company's wholly-owned subsidiary also 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 the financial statements.

### ***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.

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 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.

### ***Net Income and Income Per Share***

As a result of the factors discussed above, the net loss for the year ended October 31, 2008 was \$89,112 as compared to net income of \$678,754 in the year ended October 31, 2007 which included the gain on sale of the Commercial Self Service intellectual property rights and inventory of \$1,351,319.

Year ended October 31,

	2008	2007
	\$	\$
Net income (loss)	(89,112)	678,754
Income (loss) per share:		
Basic	(0.00)	0.03
Diluted	(0.00)	0.03

For the year ended October 31, 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.

### **Liquidity and Capital Resources**

#### ***General***

The Company has historically funded its activities through cash flow from operations, the issuance of debt and the sale of common shares and warrants or convertible debentures. During the most recent five year period ended October 31, 2008, the Company funded all capital expenditures, operations and debt reduction from a combination of cash flow from operations, the sale of common shares and warrants and the issuance of new debt and debentures convertible into common shares of the Company.

In December 2006 the Company's subsidiary sold intellectual property rights and inventory related to the Commercial Self Serve products for \$1,500,000.

Notwithstanding Management's strong belief that the trends in the marketplace with respect to the Company's products are positive and improving, there can be no assurance that third party funding will be available in the future on terms acceptable to the Company.

## ***Cash Flow from Operations***

The Company had negative working capital of \$193,902 at October 31, 2008 compared to negative working capital of \$161,966 at October 31, 2007. Excluded from the October 31, 2008, working capital calculations are: prepaid expenses of \$20,481 (2007 – \$8,095), deferred revenue of \$65,778 (2007 – \$128,019), secured debt of \$326,604 (2007 – \$210,082), convertible debenture of \$1,000,000 (2007 – \$1,000,000), and the current portion of the contingent receivable and related debt associated with the assignment of the Note Receivable resulting from the sale of the intellectual property rights and inventory related to the Commercial Self Serve products of \$319,303 (2007 – \$297,776).

For the year ended October 31, 2008, the Company had cash flow from operations of (\$207,815) as compared to cash flow from operations of \$9,337 in the year ended October 31, 2007. The change in cash flow from operations is primarily the result of an increase in accounts receivable at fiscal year-end 2008.

## ***BALANCE SHEET***

### ***Inventory***

The inventory, until the first quarter of 2007, consisted of electronic, electrical and mechanical components used in the assembly of the self service product lines and items for resale such as computer processing units, optical imaging scanners and upgraded telecommunications circuit boards. The component parts include printers, mag card readers, touch screen units, vaults, bill counts, and various fasteners and custom designed components of the self-service products. Some pieces are interchangeable among the various products. The finished goods inventory has included completed self-service products and peripheral items for resale to complement the self-service products.

Given the transaction which NamSys closed on December 15<sup>th</sup>, 2006, as set out above, the only inventory remaining on the Company's Balance Sheet at October 31, 2008 is parts service inventory with a carry value of \$3,364 as compared to parts service inventory at October 31, 2007 of \$4,386.

### ***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.

	October 31, 2008		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Intellectual Assets			
Recognition technology – Hardware	12,004	12,004	-
Trademarks and patents	100	-	100
	<b>12,104</b>	<b>12,004</b>	<b>100</b>
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	-
	<b>348,832</b>	<b>326,569</b>	<b>22,263</b>
	<b>360,936</b>	<b>338,573</b>	<b>22,363</b>

	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

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.

### ***Financing Agreements***

At October 31, 2008, the Company's subsidiary has a \$326,604 (2007 – \$210,082) secured debt arrangement with a related party. The maturity date on the subsidiary's secured loan has been extended to September 30, 2009, and the maximum available amount of the facility increased to \$300,000 from \$200,000. The carrying value of the secured debt at October 31, 2008 approximates its fair value.

As at October 31, 2008, the Company had a \$1,000,000 convertible debenture outstanding. The maturity date on the convertible debenture has been extended to September 30, 2009. The carrying value of the convertible debenture at October 31, 2008 approximates its fair value. The \$1,000,000 debenture is secured by a charge against the Company's assets and does not restrict the Company's ability to incur additional debt. The debenture security ranks behind the security of the secured debt of the Company's subsidiary.

### ***Contractual Obligations***

A summary of the Company's contractual obligations at October 31, 2008:

	Payments due by period		
	Total	Less than 1 year	1 – 3 years
Convertible debenture	\$1,000,000	\$1,000,000	-
Accounts payable and accrued liabilities	565,387	565,387	-
Secured debt	326,604	326,604	-
Contingent debt	346,931	346,931	-
Premises lease	130,000	60,000	\$70,000
Total Contractual obligations	\$2,368,922	\$2,298,922	\$70,000

### ***Capital Expenditures***

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property and equipment purchases and capital investments into intellectual property. During fiscal 2008, capital expenditures were nil as compared to \$15,097 in 2007. The majority of the 2007 investments relate to the costs of filing and maintaining intellectual property.

### ***Contingent Liability***

On December 15, 2006, the Company's wholly-owned subsidiary, NamSys Inc., completed an Asset Purchase Agreement to sell intellectual property rights and inventory related to the Commercial Self Serve products for a purchase price of \$1,500,000, comprised of \$600,000 cash and a \$900,000 promissory note bearing interest at 7% per annum payable monthly by 36 equal installments of \$27,789 blending interest and principal. These payments are current as of October 31, 2008. 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.

In December 2006, upon closing the sale of the intellectual property rights and inventory related to the Commercial Self Serve products, the \$900,000 promissory note 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 Inc. 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"). NamSys in turn would, in this event, be entitled to have the intellectual property held in escrow reassigned (the "Assigned Promissory Note").

## **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.

### **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.

### **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.

## **Recent Accounting Pronouncements**

### **a) 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.

## b) 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.

### Additional Information

Additional information relating to the Company including the interim and annual financial statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### Outstanding Share Data

Summary of securities issued and outstanding as at October 31, 2008

<u>Class</u>	<u>Authorized</u>	<u>Issued and Outstanding</u>
Common	Unlimited	22,036,332

No common shares are reserved for issuance with respect to Options granted under the Company's stock option plan as at October 31, 2008.

Common shares reserved for issuance with respect to the outstanding convertible debentures as at October 31, 2008: 10,000,000

Currently, no options are outstanding under the Company's share option plan.

### Disclosure Controls and Procedures and Internal Control over Financial Reporting

The Company's Chief Executive Officer and Chief Financial Officer are responsible for establishing and maintaining the Company's disclosure controls and procedures and internal control over financial reporting for the issuer. They are assisted in this responsibility by the Management team. The Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures and the design of internal controls at October 31, 2008, have concluded that the Company's disclosure controls and procedures are adequate and effective to ensure that material information relating to the Company and its subsidiary would have been known to them. Through the evaluation of the design of its internal controls the Company has identified certain internal control weaknesses in the financial reporting process, specifically a lack of segregation of duties in the accounting process. This situation is common to many small companies. While this deficiency in segregation of duties could lead to a material misstatement in the financial statements, no such misstatement has occurred. Management believes it has remedied this control weakness by enhancing the review of the accounting process.

As the Company has a limited number of personnel, management has concluded that a weakness exists in the design of internal controls over financial reporting caused by a lack of adequate segregation of duties. This weakness has the potential to result in material misstatements in the Company's financial statements and should also be considered a

weakness in its disclosure controls and procedures. Management has concluded that taking into account the present stage of the Company's development and the best interests of its shareholders, the Company does not have sufficient size and scale to warrant the hiring of additional personnel to correct this weakness at this time. To help mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim financial statements are reviewed by the Company's board.

## **Critical Accounting Estimates**

The preparation of the consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates are made in the context of the assumption that the Company will continue as a going concern.

Significant areas requiring the use of estimates relate to:

Collectibility of accounts receivable – Management estimates the collectibility of each account receivable and based on that estimation an estimate of an allowance for doubtful accounts is established. The recording of such an allowance will have a corresponding increase in expenses and a reduction in net income for the period;

Valuation of inventory - Inventory is valued at the lower of cost and realizable value. Management reviews the inventory regularly and if in the estimation of Management the net realizable value of the inventory is less than cost, a provision is recorded to reduce the carrying value of the inventory and a corresponding expense is recognized thereby reducing the net income for the period; and

Carrying value of intellectual assets and property and equipment – Management establishes the rate of amortization for intellectual assets and property and equipment. Management assesses the carrying value of these assets based on the estimated revenue the products they relate to will generate or service potential. This estimation may result in the reduction of the carrying value of these assets and a corresponding increase in expenses and a reduction of net income for the period.

Measurement of debt and assigned promissory note - The carrying value of the 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.

## **Investor Relations**

Personnel employed directly by the Company handle all investor relations. The duties include news releases, investor communications and general day to day operations of this department.

## **Legal Proceedings**

There are no outstanding legal proceedings.

## **Environmental Issues**

Given the nature of the Company's business, there are no material environmental issues.

## **Risk Factors**

### ***Seasonality and Inflation***

Although the Company's sale cycle is quite lengthy, sales of the Company's products are generally not seasonal. Inflation, in recent years, has not adversely affected the Company's results of operations and unless inflation increases substantially is not expected to adversely affect the Company in the future.

### ***Market Risks***

Market risks represent the risk of loss that may impact the consolidated financial statements of the Company due to adverse changes in financial market prices and rates. The Company's market risk is primarily the result of fluctuations in interest rates and in foreign currency values, particularly the United States dollar. Management monitors the movement in interest rates and currency exchange rates and, on that basis, decides on the appropriate measures to take. Interest rates and exchange rates at the present time are such that no measures are being taken at this time.

The Company does not hold or issue financial instruments for trading purposes.

### ***Financing Risk***

There is risk associated with the Company's ability to secure additional or replacement financing for debt instruments presently outstanding.

### ***Dependence on Management***

The Company's success is dependent on its founders, directors and management team. The loss of the services of key personnel could make it more difficult to successfully operate the Company's business and pursue its business goals.

### ***Competition Risk***

The Company's business is in a competitive market and it competes with companies that have greater resources, experience and market stature.

### ***Product Performance and Availability Risk***

The Company's products are tested extensively and must meet certain quality assurance tests prior to delivery to customers. However, many of the products sold to the

market utilize subassemblies produced by other manufacturers. The Company's sole supplier of the patented self service products relies upon the quality assurance processes and representations of the subassembly suppliers. Product failures or lack of availability can result in a number of risks to the business including: market reputational risks and warranty/cost of goods expense risks.

### **Market for Securities**

The common shares of the Company are listed and posted for trading on the TSX Venture Exchange under the trading symbol "CTZ".

Toronto, Ontario  
February 17, 2009