

Cencotech Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE NINE MONTHS ENDED JULY 31, 2008

The following is a discussion and analysis of the results of operations and financial condition of the Company for the nine months ended July 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 nine month period ended July 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 15th, 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.

Quarterly Financial Data

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

	Fiscal quarter end							
	<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>	<u>Oct. 31</u> <u>2006</u>
	(in thousands of dollars)							
Revenue	312	334	378	218	328	342	153	1,317
Gross profit	131	228	257	136	181	150	119	601
Net income (loss)	(115)	13	54	(59)	(66)	(122)	926	645
Net income (loss) per share:								
Basic	(0.01)	0.00	0.00	(0.00)	(0.00)	(0.01)	0.04	0.03
Diluted	(0.00)	0.00	0.00	(0.00)	(0.00)	(0.01)	0.04	0.03

Average quarterly revenues have decreased from the levels in 2005 and 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 noted previously 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 backlog of orders will be fulfilled during the 2008 fourth quarter and into fiscal year 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.

Results of Operations

Three months ended July 31, 2008 compared to Three months ended July 31, 2007

Revenue

	2008	2007	Change	Change %
Software	124,364	171,153	(46,789)	-27.3%
Self-service systems	185,294	135,092	50,202	37.2%
Peripheral resales	2,622	21,562	(18,940)	-87.8%
	312,280	327,807	(15,527)	-4.7%

Revenues in the three months ended July 31, 2008 decreased in comparison to the same period in the prior year. The Company's total sales for the three months ended July 31, 2008 were \$312,280 as compared to \$327,807 for the corresponding period in 2007, a decrease of \$15,527 or 4.7%. Revenue in the third 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 \$124,364 for the three months ended July 31, 2008, a decrease of \$46,789 or 27.3% as compared to the corresponding three months the previous year. Currency Controller license revenue in the third quarter of 2008 was nil compared to \$26,500 in the third quarter of 2007. In the third quarter, 2008, software revenue represented 39.8% of the total revenue for the quarter as compared to 52.2% in 2007. In the third quarter of 2008 revenue related to upgrading existing systems of \$6,930 represents a decrease of \$46,470 compared to \$53,400 from the corresponding period in 2007. Consulting revenue in the third quarter of 2008 was \$19,280 compared to nil in the third quarter of 2007.

Recurring product support revenue for the three months ended July 31, 2008 totaled \$98,154 compared to \$91,253 for the corresponding three months the previous year, an increase of \$6,901 or 7.6%. Recurring revenue represented 31.4% of total sales revenue in the three months ended July 31, 2008, as compared to 27.8% 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 July 31, 2008 quarter at \$185,294 were up from \$135,092 in the same period of 2007, an increase of 37.2%.

Self-service product revenue in the third quarter of 2008 represented 59.3% of total revenue as compared to 41.2% 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 July 31, 2008 was \$2,622 as compared to \$21,562 in the comparable period of fiscal 2007, a decrease of \$18,940 or 87.8%; 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 July 31, 2008 compared to Three months ended July 31, 2007

Cost of goods sold for the three months ended July 31, 2008 was \$180,927 compared to \$146,658 in the corresponding period in 2007. The corresponding gross margins were 42.1% in 2008 and 55.3% 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 July 31, 2008 was 77.1% as compared to 76.6% in the three months ended July 31, 2007.

The self-service systems gross margin in the July 31, 2008 quarter was 17.9% as compared to 30.4% in the same period of 2007.

The margin achieved on peripheral sales in the third quarter of 2008 was \$2,383 or 90.9% as compared to \$8,986 or 41.7% in the 2007 same period.

Gross Profit

Three months ended July 31, 2008 compared to Three months ended July 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 overall Gross Profit achieved in the third quarter of fiscal 2008 was \$131,353 or 42.1%, compared to Gross Profit for the corresponding period in 2007 of \$181,149 or 55.3%, a decrease in Gross Margin percentage of 13.2 percentage points. The principal reason for the decline in the Gross Profit from third quarter 2007 to 2008 is the sales mix of products year over year as set out above.

Selling Expense

Three months ended July 31, 2008 compared to Three months ended July 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 July 31, 2008 were slightly higher than the same period last year and reflect the adding of senior sales personnel, to focus on software sales in North America. Selling expenses for the third quarter of 2008 totaled \$77,349, an increase of \$1,418 or 1.9% from \$75,931 in the corresponding period of 2007. In mid 2007 the Company took steps to improve its sales of the higher margin software products including supplementing the sales management function. As a result of these factors, selling expense was 24.8% of revenue in the third quarter of 2008 as compared to 23.2% in the 2007 same quarter.

General and Administrative Expenses

Three months ended July 31, 2008 compared to Three months ended July 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 \$115,065 in the three months ended July 31, 2008 as compared to \$92,264 in 2007, an increase of \$22,801 or 24.7%. As a result of lower software sales in the quarter ended July 31, 2008, a lesser proportion of G&A expenses were absorbed into product costs. This impacted G&A expense upward by \$11,602 in the 2008 third quarter as compared to the year earlier same quarter.

Due to the item noted above, the G&A expense ratio as compared to revenue was 36.8% in the third quarter of 2008 as compared to 28.1% in 2007.

Amortization

Amortization for the three months ended July 31, 2008 of \$835 decreased by \$1,784 or 68.1% from \$2,619 in the same period of 2007. The decrease in amortization in the 2008 quarter is consistent with the sale of the Commercial Self Serve products' intellectual property in the first quarter of 2007.

Interest Expense on Convertible Debentures and Secured Debt

The principal amount of the convertible debenture outstanding at July 31, 2008 and 2007 was \$1,000,000. In the three months ended July 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 \$319,042 (July 31, 2007 - \$205,041) and bears interest at 10% per annum, reduced from 15% effective December 15, 2006. Interest expense on the secured debt in the July 31, 2008 quarter was \$7,562 (2007 - \$6,685).

Net Income and Income Per Share

As a result of the factors discussed above, the loss for the three months ended July 31, 2008 was \$115,364 as compared to a loss of \$65,982 in the three months ended July 31, 2007.

Three months ended July 31,

	2008	2007
	\$	\$
Net income (loss)	(115,364)	(65,982)
Income (loss) per share:		
Basic	(0.01)	(0.00)
Diluted	(0.00)	(0.00)

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

Nine months ended July 31, 2008 Compared to Nine months ended July 31, 2007

Revenue

	2008	2007	Change	Change %
Software	666,880	439,677	227,203	51.7%
Self-service systems	337,252	320,449	16,803	5.2%
Peripheral resales	20,193	62,585	(42,392)	-67.7%
	1,024,325	822,711	201,614	24.5%

The Company's total revenue for the nine months ended July 31, 2008 was \$1,024,325 as compared to \$822,711 for the corresponding period in 2007, an increase of \$201,614 or 24.5%. Sales of software were substantially higher than the same period in 2007. Consequently, revenue for the nine months ended July 31, 2008 improved from the corresponding period in 2007.

Software Sales - Software revenue totaled \$666,880 for the nine months ended July 31, 2008, an increase of \$227,203 or 51.7% as compared to the previous year. The software revenue increase was the result of CC-32™ revenue in the first three quarters of 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 nine months ended July 31, 2008 totaled \$286,519 compared to \$284,267 for the corresponding nine months the previous year, an increase of \$2,252 or 0.8%. Recurring revenue represented 28.0% of total sales revenue in the first three quarters of 2008, as compared to 34.6% in the first three quarters of 2007. Software revenue represented 65.1% of total revenue in year-to-date 2008 as compared to 53.4% in 2007.

Self-service System Sales - Self-service system revenue in the first nine months of fiscal 2008 totaled \$337,252 an increase of \$16,803 or 5.2% from \$320,449 in the first nine months of fiscal 2007. Self-service revenue represented 32.9% of total revenue in the first three quarters

of 2008 as compared to 39.0% for 2007 and reflects delays in the supply chain deliveries noted previously, rather than a diminishment of demand.

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 nine months ended July 31, 2008 totaled \$20,193 as compared to \$62,585 in the fiscal 2007 period, a decrease of \$42,392 or 67.7%. In the nine months ended July 31, 2008, Peripheral Resale revenue represented 2.0% of total revenue, as compared to 7.6% in the first three quarters of fiscal 2007.

Cost of Goods Sold

Nine months ended July 31, 2008 compared to Nine months ended July 31, 2007

Cost of goods sold for the nine months ended July 31, 2008 was \$407,819 compared to \$372,605 in the corresponding period in 2007. The corresponding gross margins were 60.2% in 2008 and 54.7% in 2007. The overall gross margin for the first three quarters of fiscal 2008 increased 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 65.1% in the first nine months of 2008 from 53.4% in the first nine months of 2007. The software gross margin in the 2008 period was 78.8% as compared to 2007 at 77.6%.

The Self-service systems gross margin for the nine months ended July 31, 2008 was 24.1% as compared to 24.3% in the year earlier period. The CashNET product accounted for \$183,074 of the \$337,252 self-service revenue in the nine months ended July 31, 2008 and \$279,263 of the \$320,449 in the corresponding period in 2007. Sales volumes for this segment of the business were impacted in the first half of 2008 negatively as noted earlier.

The margin achieved on the sale of peripheral items in the first three quarters of fiscal 2008 was 47.3% as compared to 49.5% in the corresponding period of 2007. The difference in dollar terms is not significant.

Gross Profit

Nine months ended July 31, 2008 Compared to Nine months ended July 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 the first three quarters of fiscal 2008 was \$616,506 or 60.2% as compared to Gross Profit for the corresponding period in 2007 of \$450,106 or 54.7%, an increase in Gross Margin percentage of 5.5 percentage points. This change is the result of the difference in the sales mix as outlined; higher margin software revenue represented 65.1% of total revenue for the nine months ended July 31, 2008 as compared to 53.4% in the first nine months of 2007, and lower margin self-service revenue represented 32.9% of total revenue in the nine months ended July 31, 2008 as compared to 39.0% for the corresponding period in 2007.

Selling Expense

Nine months ended July 31, 2008 Compared to Nine months ended July 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 the first nine months of 2008, selling expense increased \$43,871 or 24.5% to \$222,965 from \$179,094 in the first nine months of 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 21.8% in the nine months ended July 31, 2008 as compared to 21.8% in the corresponding 2007 period.

General and Administrative Expenses

Nine months ended July 31, 2008 Compared to Nine months ended July 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 \$315,635 in the first three quarters of fiscal 2008 as compared to \$471,446 in the first three quarters of 2007, a period-over-period reduction of \$155,811 or 33.0%. 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 nine months ended July 31, 2008, a greater proportion of G&A expenses were absorbed into product costs. This impacted G&A expense downward by \$43,000 in the fiscal 2008 first three quarters as compared to the year earlier same period. Finally, a reduction of administrative and development staffing helped reduce the salaries and benefits component of G&A by \$28,000 in the nine months ended July 31, 2008 as compared to the corresponding period in 2007.

G&A expense ratio as a percentage of revenue was 30.8% for the nine months ended July 31, 2008 as compared to 57.3% in the corresponding 2007 period; a decrease of 26.5 percentage points from 2007.

Amortization

Amortization for the nine month period ended July 31, 2008 of \$6,179 decreased by \$22,015 or 78.1% from \$28,194 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 July 31, 2008 and October 31, 2007 was \$1,000,000. In the nine months ended July 31, 2008 the convertible debenture interest was \$89,836. As a result of calendar 2008 being a leap year, with an extra day in February, this is a slight increase from \$89,753 in the comparable period in 2007.

The Company's secured debt is currently \$319,043 (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 July 31, 2008 three-quarter-year period was \$18,463 (2007 - \$46,892).

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 recognized 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 2008 and 2027, if not used. The Company's wholly-owned subsidiary also has investment tax credits of approximately \$253,000 available to reduce future income taxes payable. These credits will expire between 2008 and 2010, if not used. The benefit of these losses and tax credits have not been reflected in the financial statements as it can not be presently established that it is more likely than not that the benefit will be utilized.

Related Party Transactions and Contingent Debt

The following summarizes the Company's related party transactions:

- a) Rent and administration expenses in the amount of \$23,675 were incurred in the nine months ended July 31, 2008 (2007 - \$25,970) from a company that is partially owned by the President of the Company.
- b) Included in accounts payable and accrued liabilities at July 31, 2008, are amounts due to directors of \$66,300 (October 31, 2007 – \$57,200) and to a company that is partially owned by the President of the Company \$36,925 (October 31, 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 (Note 10) 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").

During the period ended April 30, 2008 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 \$300,000. The changes to the Credit Facility did not involve 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 July 31, 2008, the indebtedness under the Credit Facility is \$319,042 including \$19,042 in interest payable (October 31, 2007 – \$210,082 and \$10,082 respectively). Interest expense related to the Credit Facility during the nine month period ended July 31, 2008 was \$18,463 (2007 – \$46,892).

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 nine months ended July 31, 2008 was \$49,122 as compared to net income of \$738,711 in the nine months ended July 31, 2007 which included the gain on sale of the Commercial Self Service intellectual property rights and inventory of \$1,351,319.

Nine months ended July 31,

	2008	2007
	\$	\$
Net income (loss)	(49,122)	738,711
Income per share:		
Basic	(0.00)	0.03
Diluted	(0.00)	0.03

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

Liquidity and Capital Resources

General

The Company has historically funded its activities through cash flow from operations, bank debt and the sale of common shares and warrants or convertible debentures. During the most recent five year period ended October 31, 2007, 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. During fiscal 2006, the Company issued 218,000 common shares pursuant to a rights offering to its shareholders, with total gross proceeds of \$21,800.

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 \$73,476 at July 31, 2008 compared to negative working capital of \$161,966 at October 31, 2007. Excluded from the July 31, 2008, working capital calculations are: prepaid expenses of \$20,481 (October 31, 2007 – \$8,095), deferred revenue of \$155,531 (October 31, 2007 – \$128,019), secured debt of \$319,042 (October 31, 2007 – \$210,082), convertible debenture of \$1,000,000 (October 31, 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 \$313,779 (October 31, 2007 – \$297,776).

For the nine months ended July 31, 2008, the Company had cash flow from operations of (\$184,238) as compared to cash flow from operations of (\$96,181) in the nine months ended July 31, 2007. The change in cash flow from operations is primarily the result of an increase in accounts receivable in the first three quarters of fiscal 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 15th, 2006, as set out above, the only inventory remaining on the Company's Balance Sheet at July 31, 2008 is parts service inventory with a carry value of \$9,065 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.

	July 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	138,658	21,215
Showroom equipment	6,039	3,236	2,803
Leasehold improvements	182,920	182,920	-
	348,832	324,814	24,018
	360,936	336,818	24,118
	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 July 31, 2008, the Company's subsidiary has a \$319,042 (October 31, 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, 2008, and the maximum available amount of the facility increased to \$300,000. The carrying value of the secured debt at July 31, 2008 approximates its fair value.

As at July 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, 2008. The carrying value of the convertible debenture at July 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 July 31, 2008:

	Payments due by period		
	Total	Less than 1 year	1 – 3 years
Convertible debenture	\$1,000,000	\$1,000,000	-
Secured debt	319,042	319,042	-
Premises lease	145,000	60,000	\$85,000
Total Contractual obligations	\$1,464,042	\$1,379,042	\$85,000

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, capital asset purchases and capital investments into intellectual property. During the first three quarters of fiscal 2008, capital expenditures were nil as compared to \$3,705 in the comparable period of 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 July 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 effective November 1, 2007, and had no material impact on the financial statements.

c) Financial instruments

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

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.

Goodwill and Intangible Assets

In February 2008, the CICA issued Handbook Section 3064, Goodwill and Intangible Assets, effective for interim and annual financial statements relating to fiscal years beginning on

or after October 1, 2008. Section 3064, which replaces Section 3062, Goodwill and Other Intangible Assets, and section 3450, Research and Development Costs, establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. This new standard is effective for the Company's fiscal year commencing November 1, 2008. The Company is evaluating the impact of the adoption of this new standard on its consolidated financial statements.

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

Outstanding Share Data

Summary of securities issued and outstanding as at July 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 July 31, 2008.

Common shares reserved for issuance with respect to the outstanding convertible debentures as at July 31, 2008:	8,000,000
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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 July 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.

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 replacement cost. Management reviews the inventory regularly and if in the estimation of Management the replacement cost 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 – Management establishes the rate of amortization for intellectual assets. Management assesses the carrying value of these assets based the estimated revenue the products they relate to will generate. 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. Based on discounted cash flows, the fair values of the assigned promissory note and contingent debt are \$380,000. 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
September 18, 2008