

Cencotech Inc.

Consolidated Financial Statements
October 31, 2007 and 2006



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AUDITORS' REPORT

To the Shareholders of Cencotech Inc.

We have audited the consolidated balance sheets of Cencotech Inc. as at October 31, 2007 and 2006 and the consolidated statements of income and deficit and cash flows for the years ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at October 31, 2007 and 2006, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "Smith Nixon LLP". The signature is written in a cursive, flowing style.

Licensed Public Accountants
Chartered Accountants
Toronto, Ontario
January 8, 2008
(Except for notes 5 and 11(d) which are dated February 22, 2008)

Cencotech Inc.

CONSOLIDATED BALANCE SHEETS

October 31,	2007	2006
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash	117,798	70,942
Accounts receivable	43,151	629,657
Parts inventory	4,386	16,552
Assigned promissory note, short term (Note 10)	297,776	-
Prepaid expenses	8,095	8,095
Future income tax asset (Note 9)	6,973	225,288
Assets held for sale (Note 10)	-	131,779
	<u>478,179</u>	<u>1,082,313</u>
ASSIGNED PROMISSORY NOTE (Note 10)	346,931	-
INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT (Note 4)	37,644	53,001
ASSETS HELD FOR SALE (Note 10)	-	16,902
	<u>862,754</u>	<u>1,152,216</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 11)	334,274	583,048
Income taxes payable	-	10,288
Deferred revenue	128,019	78,537
Convertible debenture (Note 5)	1,000,000	1,000,000
Secured debt (Note 11)	210,082	1,613,425
Contingent debt, short term (Note 11)	297,776	-
	<u>1,970,151</u>	<u>3,285,298</u>
CONTINGENT DEBT (Note 11)	346,931	-
	<u>2,317,082</u>	<u>3,285,298</u>
SHAREHOLDERS' DEFICIT		
Share capital (Note 7)	5,368,752	5,368,752
Deficit	<u>(6,823,080)</u>	<u>(7,501,834)</u>
	<u>(1,454,328)</u>	<u>(2,133,082)</u>
	<u>862,754</u>	<u>1,152,216</u>
Commitments and Contingencies (Notes 11 and 12)		

Approved on behalf of the Board:

K. Barry Sparks (signed), Director

Derek H.L. Buntain (signed), Director

Cencotech Inc.

CONSOLIDATED STATEMENTS OF INCOME AND DEFICIT

For the years ended October 31,	2007	2006
	\$	\$
REVENUE	1,041,203	1,976,348
COST OF SALES	455,441	921,884
GROSS PROFIT	585,762	1,054,464
EXPENSES		
Selling	273,143	138,020
General and administration (Note 11)	570,468	616,644
Loss (gain) on foreign exchange	1,342	(28,062)
Loss on disposition of property and equipment	-	9,246
Amortization	34,333	99,729
Interest on convertible debenture	120,000	120,000
Interest on secured debt	44,041	210,945
	1,043,327	1,166,522
INCOME (LOSS) FROM OPERATIONS	(457,565)	(112,058)
Gain on sale of intellectual assets and inventory (Note 10)	1,351,319	-
Miscellaneous income (Note 13)	-	106,575
INCOME (LOSS) BEFORE INCOME TAXES	893,754	(5,483)
INCOME TAXES		
Future (Note 9)	(215,000)	215,000
NET INCOME	678,754	209,517
DEFICIT, beginning of year	(7,501,834)	(7,711,351)
DEFICIT, end of year	(6,823,080)	(7,501,834)
INCOME PER SHARE (Note 8)		
Basic	0.03	0.01
Diluted	0.03	0.01

Cencotech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended October 31,	2007	2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	678,754	209,517
Non-cash items:		
Amortization	34,333	99,729
Gain on sale of intellectual assets and inventory (Note 10)	(1,351,319)	-
Loss on disposal of property and equipment	-	9,246
Write-down of intellectual assets	-	13,134
Miscellaneous income (Note 13)	-	(106,575)
Accrued interest on secured debt	44,041	210,945
Future income taxes (Note 9)	215,000	(215,000)
	<u>(379,191)</u>	<u>220,996</u>
Changes in:		
Accounts receivable	586,506	(450,246)
Inventory	8,287	(25,185)
Prepaid expenses	-	(2,100)
Accounts payable and accrued liabilities	(248,774)	259,638
Income taxes payable	(6,973)	-
Deferred revenue	49,482	(31,097)
	<u>9,337</u>	<u>(27,994)</u>
INVESTING ACTIVITIES		
Purchase of intellectual assets and property and equipment	(15,097)	(10,083)
Proceeds from disposal of intellectual assets and inventory (Note 10)	1,500,000	-
	<u>1,484,903</u>	<u>(10,083)</u>
FINANCING ACTIVITIES		
Increase in secured debt (Note 11)	-	200,000
Repayment of secured debt (Note 11)	(1,447,384)	(97,520)
Proceeds from issuance of share capital (Note 7)	-	21,800
Share issuance costs (Note 7)	-	(18,848)
	<u>(1,447,384)</u>	<u>105,432</u>
NET INCREASE (DECREASE) IN CASH DURING THE YEAR	46,856	67,355
CASH, beginning of year	70,942	3,587
CASH, end of year	117,798	70,942
Supplemental cash flow from information:		
Interest paid	267,384	197,466
Income taxes paid	6,973	-

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

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

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

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

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern. The ability of the Company to continue as a going concern and the recoverability of the amounts shown for assets is dependant on the ability of the Company to achieve profitable operations, to raise additional debt or equity financing, or to curtail operations. Failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which could differ materially from the going concern basis.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

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

All significant intercompany transactions and balances have been eliminated.

New accounting policies

a) Financial instruments

Effective November 1, 2006, the Company adopted the recommendations of the following sections of the Canadian Institute of Chartered Accountants Handbook ("CICA Handbook"): Section 3855, Financial Instruments - Recognition and Measurement, and Section 3861, Financial Instruments - Disclosure and Presentation.

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

The Company has made the following classifications:

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

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

b) Comprehensive income

Section 1530, Comprehensive Income, introduces new standards for the presentation and disclosure of the components of comprehensive income.

Comprehensive income consists of net earnings and other comprehensive income. Other comprehensive income comprises revenues, expenses, gains and losses that, in accordance with GAAP, are recognized in comprehensive income but excluded from net income. Amounts included in accumulated other comprehensive income are reclassified to net income when realized.

The Company had no other comprehensive income or loss transactions during the year ended October 31, 2007. Accordingly a statement of comprehensive income has not been presented.

Revenue recognition and deferred revenue

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

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

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

Foreign currencies

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

Parts inventory

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intellectual assets and property and equipment

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

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

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

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

Use of estimates

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

Accounting for income taxes

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

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

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

Earnings per share

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

Stock-based compensation plans

The Company has a stock option plan, which is described in Note 7. Compensation cost of options granted under the stock option plan are measured at the grant date based on a fair value of the award and are recognized over the related service period.

3. FUTURE ACCOUNTING PRONOUNCEMENTS

Capital Disclosures

In November 2006, the CICA issued the new handbook Section 1535, "Capital Disclosures", effective for interim and annual periods beginning on or after October 1, 2007. 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, this new standard is not expected to have an effect on our financial position or results of operations. This standard applies to our interim and annual financial statements beginning November 1, 2007.

Inventory

Section 3031, Inventory, replaces Section 3030, and establishes standards for the measurement of inventories, allocations of overhead, accounting for write-downs and disclosures. The Company has determined that these new standards will have no material impact on the financial statements.

Going Concern

Section 1400 has been amended for new requirements relating to the assessment of an entity's ability to continue as a going concern. Beyond additional disclosure, the adoption of these new pronouncements is not expected to have an effect on the Company's financial position or results of operations.

Financial Instruments

Sections 3862, Financial Instruments – Disclosures and 3863, Financial Instruments – Presentation will replace Section 3861 Financial Instruments – Disclosure and Presentation, revising and enhancing 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 is not expected to have an effect on the Company's financial position or results of operations.

International Financial Reporting Standards

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

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

4. INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT

	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
	2006		
	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$
Intellectual Assets			
Recognition technology - Hardware	12,004	12,004	-
Trademarks and patents	139,739	139,639	100
	151,743	151,643	100
Property and Equipment			
Office equipment	159,873	129,295	30,578
Showroom equipment	13,173	120	13,053
Leasehold improvements	182,920	173,650	9,270
	355,966	303,065	52,901
	507,709	454,708	53,001

5. CONVERTIBLE DEBENTURE

The convertible debenture in the principal amount of \$1,000,000 (2006 - \$1,000,000) is secured by a charge against the Company's assets. The debenture bears interest at 12% per annum payable monthly. The debenture was issued on December 28, 2001 and was originally repayable on December 31, 2002, if not previously converted into shares or redeemed under the terms of the debenture. The Company has the right to call the debenture for redemption at any time on five days notice. The debenture does not restrict the Company's ability to incur additional debt security and ranks behind the security of any bank indebtedness.

On December 16, 2002, the Company reached agreement with the holder of the 2001 debenture to extend the maturity date to December 31, 2003 from the previous maturity date of December 31, 2002. In consideration, the conversion privilege on the debentures was amended such that the holder may convert the principal amount or any part thereof into common shares of the Company at \$0.33 per share on or before maturity.

On December 28, 2003 the Company reached agreement with the holder of the debenture to extend the maturity date of the debenture to May 31, 2004. The maturity date was subsequently extended to July 31, 2004.

On October 11, 2005, the Company reached agreement with the holder of the 2001 debenture to extend the maturity date of the debenture to December 31, 2006. In consideration, the conversion privilege on the debentures was amended such that the holder may convert the principal amount or any part thereof into common shares of Cencotech Inc. at \$0.165 per share on or before maturity. In addition, the holder agreed to convert \$150,000 of accrued interest into 1,500,000 common shares of Cencotech Inc. at a price of \$0.10 per share effective October 31, 2005.

On December 18, 2006, the Company reached agreement with the holder of the 2001 debenture to extend the maturity date of the debenture to March 31, 2007 for no consideration.

On April 25, 2007, the Company reached agreement with the holder of the 2001 debenture to extend the maturity date of the debenture to September 30, 2007. In consideration, the conversion privilege on the debentures was amended such that the holder may convert the principal amount or any part thereof into common shares of Cencotech Inc. at \$0.125 per share on or before maturity.

Subsequent to year end, the Company reached agreement with the holder of the 2001 debenture with effect from October 1, 2007, to extend the maturity date of the debenture to September 30, 2008, for no additional consideration.

6. FINANCIAL INSTRUMENTS

Risk Disclosures

The main risks the Company's financial instruments are exposed to are foreign exchange risk, credit risk, liquidity risk and market risk.

a) Foreign exchange risk

The Company operates in American and other foreign markets giving rise to exposure to market risks from changes in foreign exchange rates.

Approximately 94% of the Company's sales revenues are denominated in U.S. dollars (2006 – 93%). The Company is exposed to fluctuations on expenditures which are denominated in U.S. dollars. These potential currency fluctuations could have a significant impact on the cost of producing goods and services sold and thereby the profitability of the Company. At October 31, 2007 accounts receivable included U.S. \$41,787 (2006 - U.S. \$496,528) and accounts payable included U.S. \$42,998 (2006 – U.S. \$53,860).

6. FINANCIAL INSTRUMENTS (Continued)

b) Credit risk

The Company is exposed to concentration of credit risk on the accounts receivable from its customers. As at October 31, 2007 approximately 87% of the trade accounts receivable balances are owed from three customers (2006 – 90% owed from three customers).

c) Liquidity risk

The Company has significant financial liabilities outstanding including accounts payable, convertible debenture, secured debt and contingent debt. The Company is exposed to the risk that it may not have sufficient liquid assets to meet its commitments associated with these financial liabilities.

d) Market risk

Market risk arises from the possibility that changes in market prices will affect the value of the financial instruments of the Company. The Company is exposed to fair value fluctuations on the following instruments: assigned promissory note, convertible debenture, secured debt and contingent debt. The Company's short-term instruments (accounts receivable, accounts payable and accrued liabilities) are not subject to market risk.

e) Interest rate risk

The convertible debenture, secured debt, contingent debt and assigned promissory note bear interest at a fixed rate, and as such is subject to interest rate price risk resulting from changes in fair value from market fluctuations in interest rates.

Fair Value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities, convertible debenture and secured debt approximates the fair value due to the relatively short-term maturity of these financial instruments. Based on discounted cash flows, the fair values of the assigned promissory note and contingent debt are \$600,000. 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.

7. SHARE CAPITAL

Authorized

Unlimited number of common shares

Unlimited number of preferred shares

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

7. SHARE CAPITAL (Continued)

Issued and outstanding

Issued common shares of the Company are as follows:

	Number of Shares	Stated Capital
		\$
Balance, October 31, 2005	21,818,332	5,365,800
Shares issued pursuant to a rights offering	218,000	21,800
Share issuance costs		(18,848)
Balance, October 31, 2007 and 2006	22,036,332	5,368,752

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

There are a total of 8,000,000 common shares reserved for issuance (2006 – 6,060,606) as follows:

	Price	Number
Balance, October 31, 2005		6,155,606
Forfeited under the Company's share option plan during the period	0.70	(95,000)
Balance, October 31, 2006		6,060,606
Convertible debenture - conversion feature amended	0.125	1,939,394
Balance, October 31, 2007		8,000,000

Share option plan

The Company has established a share option plan under which officers, directors and selected employees can be granted options to purchase common shares of the Company. The aggregate number of shares issuable under the plan and any previous plan cannot exceed 2,500,000 in total, and the number of shares issuable to any one person under any option plan cannot exceed 5% of the total number of common shares outstanding from time to time. Options granted vest evenly on an annual basis over a three-year period. The exercise price of the option is fixed at the date of grant and may not be less than the fair market value per share of the common stock on that date. Any unexercised options that expire or are forfeited, thirty days after an employee ceases to be employed by the Company, become available again for issuance under the plan. The shareholders approved the existing plan on May 1, 2000. Share option grants before that date were under a previous share option plan under which final grants expired January 13, 2005.

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

7. SHARE CAPITAL (Continued)

A summary of the status of outstanding grants under the share option plan at October 31 is presented below:

	2007		2006	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, beginning of year	-	-	95,000	0.70
Forfeited	-	-	(95,000)	(0.70)
Outstanding, end of year	-	-	-	-
Options exercisable at year-end	-	-	-	-

8. INCOME PER SHARE

For fiscal 2007, the weighted average number of shares outstanding used to calculate basic income per share was 22,036,332 (2006 – 21,971,828).

In determining diluted income per share, the weighted average number of shares outstanding was increased by 7,064,840 (2006 – nil) for the effect of dilutive potential common shares issuable under conversion of the convertible debenture. Net income was increased by \$76,656 (2006 – nil) for the after-tax impact of eliminating interest if the debenture was converted.

For fiscal 2006, conversion of the debenture would have been anti-dilutive and, therefore, a fully-diluted income per share was not presented.

9. INCOME TAXES

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

	2007	2006
	\$	\$
Combined basic Canadian federal and provincial income tax rate	36.12%	36.12%
Provision (recovery) for income taxes based on above rate	322,824	(1,981)
Adjustments to determine taxable income	(170,432)	45,270
Utilization of loss carry forwards	(152,392)	(43,289)
Recognition (application) of benefit of losses carried forward	(215,000)	215,000
Recovery (provision) of income taxes per Statements of Income and Deficit	(215,000)	215,000

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

9. INCOME TAXES (Continued)

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

	2007	2006
	\$	\$
Future income tax asset is comprised of:		
Losses carried forward	1,486,000	2,067,000
Investment tax credits	253,000	260,000
Property and equipment	135,000	222,000
Corporate minimum taxes	6,973	10,288
	1,880,973	2,559,288
Valuation allowance	(1,874,000)	(2,334,000)
Future income tax asset	6,973	225,288

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

	Provincial	Federal
	\$	\$
2008	827,000	827,000
2009	411,000	411,000
2010	1,928,000	1,928,000
2014	1,074,000	1,074,000
2015	458,000	458,000
2026	286,000	286,000
2027	139,000	139,000
	5,123,000	5,123,000

The Company has available investment tax credits (ITCs) of approximately \$253,000 to reduce future income taxes payable, expiring \$73,000 in 2008, \$129,000 in 2009, and \$51,000 in 2010.

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.

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

10. SALE OF INTELLECTUAL ASSETS AND INVENTORY

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

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

10. SALE OF INTELLECTUAL ASSETS AND INVENTORY (Continued)

Upon closing the \$900,000 promissory note was assigned by NamSys Inc. to the Secured Lender (Note 11(c)) as partial payment of the secured debt. In the event the buyer defaults in payment under the promissory note, the Secured Lender has the right to re-assign the promissory note to NamSys Inc. and the indebtedness then owing by NamSys Inc. to the Secured Lender shall be increased by the amount equal to the amount of principal which remains unpaid under the promissory note at the time of default.

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

11. RELATED PARTY TRANSACTIONS AND CONTINGENT DEBT

The following summarizes the Company's related party transactions:

- a) Rent and administration expenses in the amount of \$33,920 were incurred in the year ended October 31, 2007 (2006 - \$42,000) from a company that is partially owned by the President of the Company.
- b) Included in accounts payable and accrued liabilities are amounts due to directors of \$57,200 (2006 - \$44,400) and to a company that is partially owned by the President of the Company \$14,250 (2006 - nil).
- 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 on the basis of security purchased from the Company's bank. The Credit Facility with the Company 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.

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 (Note 10) was assigned by NamSys Inc. 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 Inc. 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").

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, 2007, the indebtedness under the Credit Facility is \$210,082 including \$10,082 in interest payable, (2006 - \$1,613,425 and \$113,425 respectively). Interest expense related to the Credit Facility during the year was \$44,041 (2006 - \$210,945).

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

October 31, 2007 and 2006

11. RELATED PARTY TRANSACTIONS AND CONTINGENT DEBT (Continued)

- d) On October 31, 2005 the Secured Lender agreed to convert \$290,000 of accrued interest and outstanding fees to 2,900,000 common shares of Cencotech Inc. at a price of \$0.10 per share effective October 31, 2005. In addition, the Secured Lender agreed to extend the maturity date of the Credit Facility to December 31, 2006.

In March 2007, the Secured Lender agreed to extend the maturity date of the Credit Facility to September 30, 2007, for no consideration.

Subsequent to year end, 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 amount of the facility to \$250,000. 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.

These transactions, with the exception of (c) and (d), 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.

12. COMMITMENTS

The Company has leased their operating premises for the next four years at the following amounts:

	\$
2008	60,000
2009	60,000
2010	60,000
2011	10,000

13. MISCELLANEOUS INCOME

During the prior year, the Company recognized \$106,575 of income through the reversal of a liability to a customer which, due to the termination of sales arising from a dealer agreement with this customer, resulted in the Company no longer having an obligation to the customer.

14. SALES TO MAJOR CUSTOMERS

In fiscal 2007, two customers accounted for 10.8% and 24.1% respectively of the Company's consolidated revenues (2006 - 11.4% and 12.3% respectively).

In addition, the Company was economically dependent on a third customer whose revenues accounted for approximately 39.3% (2006 - 50.5%) of the Company's consolidated revenues.

15. SEGMENT INFORMATION

The Company recognized revenues of \$869,704 (2006 - \$1,827,345) in sales to U.S. customers and \$171,499 (2006 - \$149,003) in sales to customers in Canada.

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