

Cencotech Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE YEAR ENDED OCTOBER 31, 2007

The following is a discussion and analysis of the results of operations and financial condition of the Company for the year ended October 31, 2007 and 2006 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 distribution 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, 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 a purchase price of \$1,500,000 (see Contingent Liability Section below). Under this agreement, NamSys will continue 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.

The Company realized some return on the significant development and organizational expenditures with the sale of the intellectual property rights and inventory related to the Commercial Self Serve products. This helped improve the Company's working capital position as at October 31, 2007 from the year earlier position.

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:

	2007	2006	2005
	\$	\$	\$
Total Revenue	1,041,203	1,976,348	1,861,041
Net Income (Loss) from Operations	(457,565)	(112,058)	(223,894)
Net Income (Loss)	678,754	209,517	106,106
Net income (Loss) per share:			
Basic	0.03	0.01	0.01
Diluted	0.03	0.01	0.01
Total Assets	862,754	1,152,216	494,068
Total Long Term Liabilities	346,931	-	2,300,000

The 2007 revenues have decreased from 2006 and 2005. Transitioning of manufacturing the Commercial Self Service products from Canada to the United States, concurrent with developing a new version of the "CashNET" system, has resulted in delivery delays in obtaining product from the manufacturer. From the beginning of the 2007 fourth quarter, the Company has been unable to fulfill outstanding customer orders. The Company is working closely with the supplier to help resolve the manufacturing issues and believes that the backlog of orders will be fulfilled during the 2008 second quarter.

The sales cycle for the Company's products tends to be relatively long 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. However, the manufacturing delay as noted above has exacerbated the fluctuation in revenues in the latter part of fiscal 2007.

Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended October 31, 2007:

	Fiscal quarter end							
	<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>	<u>July 31</u> <u>2006</u>	<u>April 30</u> <u>2006</u>	<u>Jan. 31</u> <u>2006</u>
	(in thousands of dollars)							
Revenue	218	328	342	153	1,317	271	243	146
Gross profit	136	181	150	119	601	174	163	117
Net income (loss)	(59)	(66)	(122)	926	645	(116)	(74)	(245)
Net income (loss) per share:								
Basic	(0.00)	(0.00)	(0.01)	0.04	0.03	(0.01)	(0.00)	(0.01)
Diluted	(0.00)	(0.00)	(0.01)	0.04	0.03	(0.01)	(0.00)	(0.01)

Results of Operations

Three months ended October 31, 2007 Compared to Three months ended October 31, 2006

Revenue

	2007	2006	Change	Change %
Software	111,271	349,623	(238,352)	-68.2%
Self-service systems	93,349	885,656	(792,307)	-89.5%
Peripheral resales	13,872	82,094	(68,222)	-83.1%
	218,492	1,317,373	(1,098,881)	-83.4%

Revenue in the three months ended October 31, 2007 declined in comparison to the same period in the prior year. The Company's total sales for the three months ended October 31, 2007 were \$218,492 as compared to \$1,317,373 for the corresponding period in 2006, a decrease of \$1,098,881 or 83.4%. As noted earlier, the principle factor impacting sales results in the quarter was the lack of available "CashNET" product to meet customer demand.

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 \$111,271 for the three months ended October 31, 2007, a decrease of \$238,352 or 68.2% as compared to the corresponding three months the previous year. The sales cycle for the Company's Currency Controller system is quite long with relatively high selling prices leading to significant fluctuation in revenue period to period. There was no Currency Controller license revenue in the fourth quarter of 2007 as compared to \$221,000 in the corresponding three months of 2006. In the fourth quarter of 2007 revenue related to upgrading existing systems was \$18,645, as compared to \$11,420 in the fourth quarter of 2006. In the October 31 quarter of 2007, the Company completed software consulting assignments for clients totaling \$990. No similar activity occurred in the corresponding 2006 period.

Recurring product support revenue for the three months ended October 31, 2007 totaled \$91,636 compared to \$106,153 for the corresponding three months the previous year, a decrease of \$14,517 or 13.7%. Recurring product support revenue declined in the third fourth of 2007 compared to the same quarter in 2006 as certain customers elected not to renew their product support agreements for the older software product. This is consistent with the results identified in the past four quarters. Recurring revenue represented 43.7% of total sales revenue in the three months ended October 31, 2007, as compared to 8.1% in the same three months of fiscal 2006.

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, NamSys Inc. ("NamSys"), completed an agreement in December 2006 to sell intellectual property rights and inventory related to the Commercial Self Serve products. Under this Agreement, NamSys 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 NamSys. Sales of self-service products in the October 31, 2007 quarter at \$93,349 were down from \$885,656 in the same period of 2006, a decrease of 89.5%. As noted earlier, as a result of delays in the start up of new manufacturing operations by the supplier, the self-service sales in the 2007 fourth quarter included only five units of CashNet as compared to 55 units of CashNet in the 2006 fourth quarter.

Self-service product revenue in the fourth quarter of 2007 represented 42.7% of total revenue as compared to 67.2% in the 2006 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, 2007 was \$13,872 as compared to \$82,094 in the comparable period of fiscal 2006, a decrease of \$68,222 or 83.1%; consistent with the reduced sales results of the Company's products.

Cost of Goods Sold

Three months ended October 31, 2007 Compared to Three months ended October 31, 2006.

Cost of goods sold for the three months ended October 31, 2007 was \$82,836 as compared to \$716,299 in the corresponding period in 2006. The corresponding gross margins were 62.1% in 2007 and 45.6% in 2006. 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, 2007 was 97.1% as compared to 79.6% in the three months ended October 31, 2006.

The self service systems gross margin in the October 31, 2007 quarter was 28.1% as compared to 33.8% in the same period of 2006. The 2007 margin reflects the new cost structure as a result of the new sourcing agreement for the Commercial Self Service products and the elevated value of the Canadian dollar opposite the U.S. dollar year-over-year.

The margin achieved on peripheral sales in the third quarter of 2007 was \$1,371 or 9.9% in the October 31, 2007 quarter as compared to \$22,881 or 27.9% in the 2006 same period.

Gross Profit

Three months ended October 31, 2007 Compared to Three months ended October 31, 2006

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 fourth quarter of fiscal 2007 was \$135,656 or 62.1%, compared to Gross Profit for the corresponding period in 2006 of \$601,074 or 45.6%, an increase in Gross Margin percentage of 16 percentage points. The principal reason for the improvement in the Gross Profit from fourth quarter 2006 to 2007 is the sales mix of products year over year as set out above.

Selling Expense

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, 2007 were significantly higher than the same period last year as a consequence of adding senior sales personnel to focus on software sales in North America. Selling expenses for the fourth quarter of 2007 totaled \$94,048 an increase of \$56,665 or 151.6% from \$37,382 in the corresponding period of 2006. The Company believes it must improve its sales of the higher margin software products

and the recent changes will supplement the sales management responsibilities of distributors. As a result of these factors, selling expense was 43.0% of revenue in the fourth quarter of 2007 as compared to 2.84% in the 2006 same quarter.

General and Administrative Expenses

General and administrative ("G&A") expense consists primarily of salaries, benefits, corporate maintenance charges, occupancy, professional fees, foreign exchange gains and losses and travel.

G&A expense totaled \$99,021 in the three months ended October 31, 2007 as compared to \$70,564 in 2006 an increase of \$28,457 or 40.3%. The G&A expense ratio as compared to revenue was 45.3% in 2007 fourth quarter as compared to 5.4% in 2006, primarily because the fourth quarter revenue was only \$218,492 in 2007 compared to \$1,317,373 in 2006. The primary elements of the G&A expenses being salaries and benefits and occupancy have remained relatively consistent compared to the first three quarters of 2007 except for foreign exchange impact on receivables and deferred revenue. However, as the Company no longer undertakes its own manufacturing of the self-service products, no portion of G&A expense is allocated to product manufacturing costs of these products. This impacted G&A expense by \$45,170 in the 2007 fourth quarter as compared to the year earlier same quarter.

Amortization

Amortization for the three months ended October 31, 2007 of \$6,139 decreased by \$19,052 or 75.6% from \$25,191 in the same period of 2006. The decrease is consistent with the sale of the Commercial Self Serve products' intellectual property in the first quarter of 2007.

Interest Expense on Convertible Debenture and Secured Debt

The principal amount of the convertible debenture outstanding at October 31, 2007 and 2006 was \$1,000,000. In the three months ended October 31, 2007 the convertible debenture interest was \$30,247 as it was in the comparable period in 2006.

The Company's secured debt is currently \$210,082 (October 31, 2006 - \$1,613,425) and bears interest at 10% per annum, reduced from 15% effective December 15, 2006. Interest expense on the secured debt in the October 31, 2007 quarter was \$5,041 (2006 - \$56,712).

Net Income and Income Per Share

As a result of the factors discussed above, net loss for the quarter ended October 31, 2007 was \$59,957 as compared to net income in the quarter ended October 31, 2006 of \$644,522.

Three months ended October 31,

	2007	2006
	\$	\$
Net income (loss)	(59,957)	644,522
Income (loss) per share:		
Basic	(0.00)	0.03
Diluted	(0.00)	0.03

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.

Year ended October 31, 2007 Compared to Year ended October 31, 2006

Revenue

	2007	2006	Change	Change %
Software	550,948	898,029	(347,081)	-38.6%
Self-service systems	413,798	980,715	(566,917)	-57.8%
Peripheral resales	76,457	97,604	(21,147)	-21.7%
	1,041,203	1,976,348	(935,145)	-47.3%

The Company's total revenue for the year ended October 31, 2007 was \$1,041,203 as compared to \$1,976,348 for the corresponding period in 2006, a decrease of \$935,145 or 47.3%.

Software Sales - Software revenue totaled \$550,948 for the year ended October 31, 2007, a decrease of \$347,081 or 38.6% as compared to the previous year. The software revenue decrease was the result of CC-32™ revenue in 2007 of \$67,540 compared to the stronger results of \$243,800 in 2006. 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 year ended October 31, 2007 totaled \$375,903 compared to \$458,890 the previous year, a decrease of \$82,987 or 18.1%. The decrease is the result of certain customers electing not to renew their product support agreements for the older software product. This decrease is consistent with the results identified throughout 2007. Recurring revenue represented 68.2% of total software sales revenue in 2007, as compared to 51.1% in 2006. Software revenue represented 52.9% of total revenue in 2007 as compared to 45.4% in 2006.

Self-service System Sales - Self-service system revenue in fiscal 2007 totaled \$413,798 a decrease of \$566,917 or 57.8% compared to fiscal 2006. The CashNET product represented the majority of Self-service Revenue in 2007. 2007 CashNET revenue totaled \$363,825 as compared to \$969,315 in 2006. Self-service revenue represented 39.7% of total revenue in 2007 as compared to 49.6% for 2006 and reflects delays in the supply chain deliveries noted in the fourth quarter results, 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 year ended October 31, 2007 totaled \$76,457 as compared to \$97,604 in fiscal 2006, a decrease of \$21,147 or 21.7%. In the year ended October 31, 2007, Peripheral Resale revenue represented 7.3% of total revenue, as compared to 4.9% in fiscal 2006.

Cost of Goods Sold

Year ended October 31, 2007 Compared to Year ended October 31, 2006

Cost of goods sold for the year ended October 31, 2007 was \$455,451 compared to \$921,884 in the corresponding period in 2006. The corresponding gross margins were 56.3% in 2007 and 53.4% in 2006. The overall gross margin for the year ended October 31, 2007 increased from the comparable period in fiscal 2006 as a result of the change in sales mix.

The higher margin software revenue increased as a percentage of total revenue to 52.9% in 2007 from 45.4% in 2006. The software gross margin in 2007 was 81.6% as compared to 2006 at 77.7%.

The Self-service systems gross margin in 2007 was 25.2% as compared to 32.1% in 2006. The CashNET product accounted for \$363,825 of the self-service revenue in the year ended October 31, 2007 and \$969,315 in the corresponding period in 2006. Sales volumes for this segment of the business were impacted in 2007 negatively as noted earlier.

The margin achieved on the sale of peripheral items in 2007 was 42.3% as compared to the 2006 margin for Peripheral sales 43.2%. The difference in dollar terms is not significant.

Gross Profit

Year ended October 31, 2007 Compared to Year ended October 31, 2006

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 2007 was \$585,762 or 56.3% as compared to Gross Profit for the corresponding period in 2006 of \$1,054,464 or 53.4%, an increase in Gross Margin percentage of 2.9 percentage points. This change is the result of the difference in the sales mix as outlined; higher margin software revenue represented 52.9% of total revenue for the year ended October 31, 2007 as compared to 45.4% in 2006 and lower margin self-service revenue represented 39.7% of total revenue in the year ended October 31, 2007 as compared to 49.6% for the comparable period in 2006.

Selling Expense

Selling expenses are comprised of direct selling and marketing expenses and the salaries of employees whose principal function is sales and marketing. In fiscal 2007, selling expense increased \$135,123 or 97.9% from \$138,020 in 2006. The number of sales staff in the second quarter of 2007 increased by two in an effort to generate higher levels of software sales. The Company also attended several key trade shows and conferences. As a percentage of sales, selling expense was 26.2% in the year ended October 31, 2007 as compared to 7.0% in 2006.

General and Administrative Expenses

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, foreign exchange gains and losses and travel.

G&A expense totaled \$570,468 in fiscal 2007 as compared to \$616,644 in 2006, a year over year reduction of \$46,176 or 7.5%. The difference in G&A expense between fiscal 2007 and 2006 is essentially the expensing of costs that previously were absorbed in cost of goods in the manufacturing activities of the Company which were sold in December, 2006.

G&A expense ratio as a percentage of revenue was 54.8% for the year ended October 31, 2007 as compared to 31.2% in 2006; an increase of 23.6 percentage points from 2006.

Amortization

Amortization for the year ended October 31, 2007 of \$34,333 decreased by \$65,396 or 65.6% from \$99,729 in fiscal 2006, consistent with the sale of patents and trademarks sold with the Commercial Self-Service manufacturing operations.

Interest Expense on Convertible Debenture and Secured Debt

Convertible debenture interest was \$120,000 in 2007 and 2006. The principal amount of convertible debentures outstanding at October 31, 2007 and 2006 was \$1,000,000.

The secured debt of \$1,000,000 issued in October 2003 is currently \$210,082 (October 31, 2006 - \$1,613,425) and, effective December 15, 2006, bears interest at

10% per annum (previously 15%). Interest expense on the secured debt to October 31 in 2007 was \$44,041 (2006 - \$210,945).

Provision for Income Taxes

The Company adopted section 3465 of the Canadian Institute of Chartered Accountants (CICA) Handbook regarding accounting for income taxes. This section requires the use of the asset and liability method 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 basis (temporary differences), provided that it can reasonably be determined as more likely than not that any taxable asset so established will be realized.

The basic rate of 36.12% was applied to pre-tax income in 2007 (2006 - 36.12%). In 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 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, but 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 of the tax losses will be utilized.

Related Party Transactions

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 issued by the buyer as part consideration for the sale 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).

- 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.

Management of the Company is currently in negotiations to further extend the maturity of the Credit Facility.

The loan negotiations with the related party are being 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.

Net Income and Income Per Share

As a result of the factors discussed above, net income for the year ended October 31, 2007 was \$678,754 as compared to net income in the year ended October 31, 2006 of \$209,517.

Year ended October 31,

	2007	2006
	\$	\$
Net income (loss)	678,754	209,517
Income (loss) per share:		
Basic	0.03	0.01
Diluted	0.03	0.01

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.

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

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 also 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 \$161,966 at October 31, 2007 compared to working capital of \$480,882 at October 31, 2006. Excluded from the October 31, 2007, working capital calculations are: prepaid expenses of \$8,095 (2006 -

\$8,095), deferred revenue of \$128,019 (2006 - \$78,537), secured debt of \$210,082 (2006 - \$1,613,425), convertible debenture of \$1,000,000 (2006 - \$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 \$297,776 (2006 - nil).

For the year ended October 31, 2007, the Company had cash flow from operations of \$9,337 as compared to cash flow from operations of (\$27,994) in the year ended October 31, 2006.

Balance Sheet

Inventory

The inventory has, 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 carry value of inventory totaling \$131,779 was reclassified to "Assets held for sale" at October 31, 2006. The only inventory remaining on the Company's Balance Sheet at October 31, 2007 is parts service inventory with a carry value of \$4,386 as compared to parts service inventory at October 31, 2006 of \$16,552.

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.

On December 15, 2006, the Company's wholly-owned subsidiary, NamSys Inc., entered into an Asset Purchase Agreement to sell intellectual property rights related to the Commercial Self Serve products.

	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

	October 31, 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

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, 2007, the Company's subsidiary has a \$210,082 (October 31, 2006 - \$1,613,425) 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 \$250,000. The carrying value of the secured debt at October 31, 2007 approximates its fair value.

As at October 31, 2007, 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 October 31, 2007 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, 2007.

	Payments due by period		
	Total	Less than 1 year	1 – 3 years
Convertible debenture	\$1,000,000	\$1,000,000	-
Secured debt	210,082	210,082	-
Premises lease	190,000	60,000	\$130,000
Total Contractual obligations	\$1,400,082	\$1,270,082	\$130,000

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology and capital investments. During 2007, capital expenditures were \$15,097 as compared to \$10,083 in fiscal 2006. The majority of these 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, 2007. 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 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"). NamSys in turn would, in this event, be entitled to have the intellectual property held in escrow reassigned.

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.

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.

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.

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 October 31, 2007

<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, 2007.

Common shares reserved for issuance with respect to the outstanding convertible debenture as at October 31, 2007. 8,000,000

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, 2007, 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 \$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.

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.

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 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 relies upon the quality assurance processes and representations of the subassembly suppliers. Product failures 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 25, 2008