

Cencotech Inc.

Interim Consolidated Financial Statements
January 31, 2006 and 2005
(Unaudited)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-502 "Continuous Disclosure Obligations", Subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by the auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor, Smith, Nixon & Co. LLP, has not performed a review of these financial statements in accordance with the standards established by the Institute of Chartered Accountants for a review of interim financial statements by the company's auditor.

Cencotech Inc,
March 28, 2006

Cencotech Inc.

CONSOLIDATED BALANCE SHEETS (unaudited)

	January 31 2006	October 31 2005
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash	78,655	3,587
Accounts receivable	113,608	179,411
Inventory (Note 3)	170,101	136,319
Prepaid expenses	7,865	5,995
	<u>370,229</u>	<u>325,312</u>
INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT (Note 4)	<u>156,387</u>	<u>168,756</u>
	<u>526,616</u>	<u>494,068</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	319,799	323,410
Short term debt (Note 10(e))	75,000	-
Deferred revenue	422,126	216,209
	<u>816,925</u>	<u>539,619</u>
OTHER LIABILITIES		
Convertible debenture (Note 5)	1,000,000	1,000,000
Secured debt (Note 10)	1,300,000	1,300,000
	<u>3,116,925</u>	<u>2,839,619</u>
SHAREHOLDERS' DEFICIT		
Share capital (Note 7)	5,365,800	5,365,800
Deficit	(7,956,109)	(7,711,351)
	<u>(2,590,309)</u>	<u>(2,345,551)</u>
	<u>526,616</u>	<u>494,068</u>

Approved on behalf of the Board:

_____, Director

_____, Director

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

Cencotech Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICITS (unaudited)

For the three months ended January 31	2006	2005
	\$	\$
REVENUE	145,769	656,601
COST OF SALES	28,830	195,285
GROSS PROFIT	116,939	461,316
EXPENSES		
Selling	31,846	50,563
General and administration	204,123	112,047
Loss (gain) on foreign exchange	24,178	39,732
Amortization	21,804	24,756
Interest on convertible debenture	30,246	30,246
Interest on secured debt	49,500	49,782
	361,697	307,126
NET INCOME (LOSS)	(244,758)	154,190
DEFICIT, beginning of period	(7,711,351)	(7,817,457)
DEFICIT, end of period	(7,956,109)	(7,663,267)
INCOME (LOSS) PER SHARE (Note 8)	(0.01)	0.01

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

Cencotech Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

For the three months ended January 31	2006	2005
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	(244,758)	154,190
Non-cash items:		
Amortization	21,804	24,756
	(222,954)	178,946
Changes in:		
Accounts receivable	65,803	(88,284)
Inventory	(41,282)	30,385
Prepaid expenses	(1,870)	6,271
Accounts payable and accrued liabilities	(3,611)	13,666
Deferred revenue	205,917	42,477
	2,003	183,461
INVESTING ACTIVITY		
Purchase of intellectual assets and property and equipment	(1,935)	(30,105)
FINANCING ACTIVITIES		
Increase in short term debt (Note 10(e))	75,000	-
Increase in secured debt (Note 10)	-	49,587
	75,000	49,587
NET DECREASE IN CASH DURING THE PERIOD		
	75,068	202,943
CASH , beginning of period	3,587	11,334
CASH , end of period	78,655	214,277
Cash flows from operating activities include:		
Interest paid:	79,746	-

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

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

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 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

Basis of presentation

These interim financial statements are prepared in accordance with Section 1751 of the Canadian Institute of Chartered Accountants Handbook. Not all disclosures required by generally accepted accounting principles for annual financial statements are presented herein, and accordingly, these statements should be read in conjunction with the audited financial statements of October 31, 2005 to which the reader is assumed to have access.

These interim financial statements follow the same accounting policies and methods of application as the October 31, 2005 financial statements.

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.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 period-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 operations.

Inventory

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

Intellectual assets and property and equipment

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

Recognition technology - Hardware	30% declining balance
Trademarks and patents	20% straight-line
Office equipment	20% declining balance
Showroom equipment	three years straight-line
Leasehold improvements	20% straight-line or over term of lease

Long-lived assets

Long-lived assets, which comprise 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.

Development expenses

Development expenses related to both hardware and software are deferred when they meet specific criteria related to technical, market and financial feasibility; otherwise they are expensed when incurred.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

reported amounts of revenues and expenses during the reporting period. 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 enacted or substantially 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.

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. INVENTORY

	<u>2006</u>	<u>2005</u>
	\$	\$
Raw materials and parts	219,597	252,044
Finished goods	<u>289,878</u>	<u>449,889</u>
	509,475	701,933
Less: Provision	<u>339,374</u>	<u>565,614</u>
	<u>170,101</u>	<u>136,319</u>

Raw material and parts inventory consists of electronic, electrical, and mechanical components used in the assembly of the self-service product lines. The finished goods inventory includes completed self-service products and peripheral items for resale to complement the self-service products.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

4. INTELLECTUAL ASSETS AND PROPERTY AND EQUIPMENT

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Intellectual Assets				
Recognition technology - Hardware	12,004	11,795	209	236
Trademarks and patents	230,987	160,979	70,008	79,575
	<u>242,991</u>	<u>172,774</u>	<u>70,217</u>	<u>79,811</u>
Property and Equipment				
Office equipment	196,209	148,925	47,284	49,771
Showroom equipment	7,500	312	7,128	-
Leasehold improvements	182,920	151,222	31,698	39,174
	<u>386,629</u>	<u>300,459</u>	<u>86,170</u>	<u>88,945</u>
	<u>629,620</u>	<u>473,233</u>	<u>156,387</u>	<u>168,756</u>

Showroom equipment consists of Company product required for demonstration purposes and having an estimated fair value of \$7,500 that was transferred from Inventory during the period. A \$10,000 charge against operations was recognized at the time of the transfer.

5. CONVERTIBLE DEBENTURE

The convertible debenture in the principal amount of \$1,000,000 (2005 - \$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, 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 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

6. FINANCIAL INSTRUMENTS

(a) Foreign exchange

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

Approximately 92% of the Company's sales revenues are denominated in U.S. dollars. 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 January 31, 2006 accounts receivable included U.S. \$56,494 (October 31, 2005 - U.S. \$105,414) and accounts payable included U.S. \$50,806 (October 31, 2005 - U.S. \$62,621).

b) Credit risk

The Company is exposed to credit risk on the accounts receivable from its customers. As at January 31, 2006 approximately 86% of the trade accounts receivable balances are owed from four customers.

c) Fair Value

The carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates the fair value due to the relatively short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arm's length transaction between willing parties and is best evidenced by a quoted market price, if one exists. The fair value of the convertible debenture is approximately \$984,000. The fair value of the secured debt is approximately \$1,310,000.

7. SHARE CAPITAL

Authorized

Unlimited number of common shares
Unlimited number of preferred shares

Issued and outstanding

Issued common shares of the Company are as follows:

	Number of Shares	Stated Capital \$
Balance, October 31, 2004	15,818,332	5,095,800
Shares issued upon the conversion of liabilities to share capital	6,000,000	270,000
Balance, October 31, 2005 and January 31, 2006	21,818,332	5,365,800

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 debentures (Note 5).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

7. SHARE CAPITAL (Continued)

There are a total of 6,155,606 common shares reserved for issuance (2005 – 6,155,606) as follows:

	Price	Number
Balance – Common shares reserved for issuance, October 31, 2004		3,520,303
2005		
Forfeited under the Company's share option plan during the year	0.50 1.30	(280,000) (115,000)
Convertible debenture - conversion feature reinstated	0.165	<u>3,030,303</u>
Balance – Common shares reserved for issuance, October 31, 2005 and January 31, 2006		<u>6,155,606</u>

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.

8. INCOME (LOSS) PER SHARE

Income (loss) per share figures have been calculated using the weighted-average number of common shares outstanding during the respective fiscal years, which amounted to 21,818,332 (2005 – 15,818,332). Due to the loss from continuing operations in the prior year, the exercise of the outstanding stock options and the conversion of convertible debentures would be anti-dilutive.

Cencotech Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

9. INCOME TAXES

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

	<u>2006</u>	<u>2005</u>
	\$	\$
Combined basic Canadian federal and provincial income tax rate	36.12%	36.12%
Provision (recovery of) for income taxes based on above rate	(88,406)	55,693
Valuation allowances	<u>88,406</u>	<u>(55,693)</u>
Recovery of income taxes per Statements of Operations and Deficits	-	-

The tax benefit of these losses has not been reflected in these financial statements.

The Company also has available investment tax credits of approximately \$260,000 to reduce future income taxes payable, expiring \$7,000 in 2006, \$73,000 in 2008, \$129,000 in 2009, and \$51,000 in 2010. Based upon the information outlined in Note 1, there is not presently reasonable assurance that the investment tax credits will be realized in whole or in part in future periods.

10. RELATED PARTY TRANSACTIONS

The following summarizes the Company's related party transactions:

- a) Rent and administration in the amount of \$10,500 were paid in the three months ended January 31, 2005 (2004 - \$10,500) to 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 \$42,000 (2005 - \$40,400).
- 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 is calculated and compounded monthly. Under the terms of the Credit Facility all indebtedness was to have been paid by October 31, 2004. 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.

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 January 31, 2006, the indebtedness under the Credit Facility is \$1,300,000 (2005 - \$1,300,000). Interest expense related to the Credit Facility during the three months ended January 31 was \$49,500 (2005 - \$49,782).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three months ended January 31, 2006 and 2005

10. RELATED PARTY TRANSACTIONS (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.

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.

- e) During the three months ended January 31, 2006, the President of the Company advanced the Company \$75,000 on a short term basis. The advance is on a demand basis without interest and was outstanding at January 31, 2006.

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

11. COMMITMENTS

The Company has leased operating premises for the next three years at a rental charge as follows:

	\$
2006	45,000
2007	60,000
2008	<u>10,000</u>
	115,000

In addition, the Company has entered an agreement to pay a royalty under a Co-ownership and Exploitation Agreement with a third party, in the amount of 5% of the revenue or \$3,000, whichever is greater, on the sales of its Commercial Deposit Express machine. This agreement expires on December 31, 2008.

12. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current presentation. Net income previously reported has not been affected by this reclassification.