Cencotech Inc.

MANAGEMENT DISCUSSION AND ANALYSIS FOR THE SIX MONTHS ENDED APRIL 30, 2016

The following is a discussion and analysis of the results of operations and financial condition of the Company for the six months ended April 30, 2016 and 2015 along with certain factors that may affect the Company's prospective financial condition and results of operations.

Forward-Looking Statements

This MD&A contains forward-looking information. All statements, other than statements of historic fact, that address activities, events or developments that the Company believes, expects or anticipates will or may occur in the future (including, without limitation, statements regarding estimates and/or assumptions in respect of revenue, cash flow, costs, economic return) constitute forward-looking information. This forward-looking information reflects the current expectations or beliefs of the Company based on information currently available to the Company. Forward-looking information is subject to a number of risks and uncertainties that may cause the actual results of the Company to differ materially from those discussed in the forward-looking information, and even if such actual results are realized or substantially realized, there can be no assurance that they will have the expected consequences to, or effects on the Company. Any forward-looking statement speaks only as of the date on which it is made and, except as may be required by applicable securities laws, the Company disclaims any intent or obligation to update any forward-looking information, whether as a result of new information, future events or results or otherwise. Although the Company believes that the assumptions inherent in the forward-looking information are reasonable, forward-looking information is not a guarantee of future performance and accordingly undue reliance should not be put on such information due to the inherent uncertainty therein.

Overview

The Company is an active participant in the development and production of currency inventory management and control systems for financial institutions, large retailers, currency carriers, casino and mass transit operators, and various government agencies. Many of these customers are distributors and in turn offer our services to their clients.

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. The Company generated a profit for the six months ended April 30, 2016 and years ended October 31, 2015, 2014 and 2013.

The Company's software products have demonstrated their value in use to the licensees of the products. The Currency Controller product has a history of solid performance in major North American financial institutions. The current generation of this product, a Java based iteration of the Currency Controller, trademarked by the Company as "Currency Controller", continues to be adopted by users in the market as a replacement for prior versions 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 Currency Controller 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 Currency Controller 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, and the integration of some of the larger U.S. banks, may be expected to lead to increased customer interest in this product.

As software continues to evolve, software products are increasingly sold as a hosted service rather than as customer licenses. This evolution, which began gaining traction approximately four years ago, is generally referred to as “cloud” computing services or software as a service (“SaaS”). The Company has offered hosted service for a few of its software products for some time. The Company’s hallmark Currency Controller product is comprised of multiple functions that are separable into discrete software offerings. The Company’s subsidiary, NamSys Inc., has found a market for the cloud offering of individual components of the Currency Controller system as well as for the complete system. Over the past three years, NamSys has adapted its software to be available through this medium. These SaaS products are branded and trademarked as “Cirreon”. Although we also continue to sell license contracts, as sales of hosted products increase and monthly payments are made to the Company for usage, the financial model for the Company has changed accordingly.

Quarterly Financial Data

The table below presents selected financial data of the Company for each of the eight fiscal quarters ended April 30, 2016:

	Fiscal quarter end							
	Apr. 30 2016	Jan. 31 2016	Oct. 31 2015	Jul. 31 2015	Apr. 30 2015	Jan. 31 2015	Oct. 31 2014	Jul. 31 2014
	(in thousands of dollars)							
Revenue	561	495	456	452	453	347	424	329
Gross profit	388	346	312	367	333	256	305	238
Comprehensive income before tax*	164	253	66	261	156	233	379	61
Comprehensive income per share:								
Basic	0.004	0.007	0.010	0.010	0.006	0.009	0.033	0.002
Diluted	0.004	0.007	0.010	0.010	0.006	0.009	0.033	0.002

*The Company has chosen to compare year over year Comprehensive Income before taxes because the Company is not yet taxable due to losses in previous years. In fiscal 2015, with the concurrence of the Company’s auditors, the tax loss carry forwards were assigned a present value and capitalized in the Company’s accounts. Fiscal 2016 Comprehensive Income reflects the taxes which would have been payable had the Company been taxable. The tax amount for each period is in turn charged against the capitalized tax asset. Prior to the capitalization of such losses, the accounting protocol assumed no taxes were payable. For comparison purposes, therefore, Comprehensive Income before taxes is the appropriate metric.

The sales cycle for the Company's licensable products tends to be protracted and the unit selling prices of licenses are relatively high. These factors together with a relatively low number of transactions historically lead to revenue fluctuations quarter to quarter and year to year. The SaaS offering of these products is now changing these dynamics. Customer feedback continues to be positive, and with the global economy showing signs, albeit tepid, of recovery, the Company believes the proven value of its Currency Controller and SaaS products, as described above, will be realized through fulfillment of customer demand in 2016 and beyond.

Results of Operations

Three months ended April 30, 2016 compared to Three months ended April 30, 2015

Revenue

	2016	2015	Change	Change %
	$	$	$	
Software	561,021	452,622	108,399	23.9%

Revenues in the three months ended April 30, 2016, increased in comparison to the same period in the prior year. The Company's total sales for the three months ended April 30, 2016, were $561,021 as compared to $452,622 for the corresponding period in 2015, an increase of $108,399 or 23.9%. In fiscal year 2012, the Company decided to exit the relatively low margin Commercial Self Service product market and, as a result, revenue is now exclusively from the sale of software licenses and services. As the Company migrates to the "software-as-a-service" model, the sales cycle is shortening and the service is paid monthly.

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, product support and hosted services. The majority of the Company's licensed systems customers renew their product support agreements annually, in order to stay current with new features and developments.

In the second quarter of 2016, software revenue represented 100% of the total revenue for the period, compared to 100% in the 2015 quarter. Recurring revenue, including maintenance, product support and hosted services (SaaS) revenue for the three months ended April 30, 2016 represented $410,289 of the total software revenue compared to $310,432 for the corresponding three months the previous year, an increase of $99,857 or 32.2%. Recurring revenue represented 73.1% of total sales revenue in the three months ended April 30, 2016, as compared to 68.6% in the same three months of fiscal 2015.

Currency Controller license fees for the three months ended April 30, 2016, were $122,433 compared to $88,057 for the 2015 comparative period. And Cirreon license fees for the three months ended April 30, 2016, were $6,610 compared to $13,743 for the 2015 comparative period. In the second quarter of 2016, revenue related to upgrading existing systems of $21,689 represents a decrease of $18,701 compared to $40,390 from the corresponding period in 2015. Consulting revenue in the second quarter of 2016 was $nil compared to $nil in the second quarter of 2015.

Cost of Goods Sold and Gross Profit

Three months ended April 30, 2016 compared to Three months ended April 30, 2015

Historically, the sales mix between software license fees, hosted products and royalties impacted 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.

Cost of goods sold for the three months ended April 30, 2016 was $172,842 compared to $119,342 in the corresponding period in 2015. The overall Gross Profit achieved in the second quarter of 2016 was $388,179 or 69.2%, compared to Gross Profit for the corresponding period in 2015 of $333,280 or 73.6%, a decrease in Gross Margin percentage of 4.4 percentage points.

Selling Expenses

Three months ended April 30, 2016 compared to Three months ended April 30, 2015

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 April 30, 2016, totaled $44,312, an increase of $2,342 or 5.6% from $41,970 in the corresponding period of 2015. This increase is mostly because bonuses of $6,500 were accrued in the current period, whereas no bonuses were accrued in the comparative period. The bonus accrual was offset by a decrease of $3,750 in sales consulting expenses. Selling expense was 7.9% of revenue in the second quarter of 2016 as compared to 9.3% in the 2015 same quarter, recognizing that revenues in the 2016 period were up $108,399 or 23.9% from the 2015 comparative period.

General and Administration Expenses

Three months ended April 30, 2016 compared to Three months ended April 30, 2015

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

G&A expense totaled $113,255 in the three months ended April 30, 2016 as compared to $100,874 in the 2015 comparative period, an increase of $12,381 or 12.3%.

As a result of higher software sales in the quarter ended April 30, 2016, a higher proportion of G&A expenses were absorbed into product costs. This impacted G&A expense downward by $30,650 in the 2016 second quarter as compared to the year earlier same quarter. However, in the second quarter of 2016, bonuses payable to staff of $18,500 were accrued under the Company's employee incentive compensation plan, whereas no accrual was made in the comparative quarter. In addition, other staffing costs were higher by $27,091 with the recruitment of a new software developer, and compensation increases for the other members of the product development team, which occurred after the second quarter of 2015. Various other G&A expenses decreased by $2,560 in the current quarter.

Depreciation and amortization for the three months ended April 30, 2016, of $578 decreased by $1,878 or 76.5% from $2,456 in the same period of 2015. The level of amortization is a result of the Company incurring only minor expenditures for intellectual assets and property and equipment over the last several years and due to the write-off of intellectual assets in the fourth quarter of 2015, which had a carrying value of $19,428, associated with a technology for which patent protection is no longer being pursued.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 20.2% in the second quarter of 2016 as compared to 22.3% in the 2015 second quarter.

Financing and Other Costs

The Company's secured debt is currently $nil (October 31, 2015 - $nil). On April 30, 2015, the Company paid $150,000 to the Secured Lender reducing the outstanding balance of the Credit Facility to $nil. The Credit Facility was not renewed upon its expiry, October 31, 2015. Interest expense on the secured debt in the April 30, 2016, quarter was $nil (2015 – $2,926).

Loss (gain) on foreign exchange

The Company recognized a loss on foreign exchange of $67,076 in the second quarter of 2016, whereas a loss of $31,955 was experienced in the comparative quarter of 2015. This results in a decrease in income of $35,121 in 2016 as compared to the 2015 same period. The significant loss on foreign exchange recognized in the quarters ended April 30, 2016 and 2015, is a result of both the large number of clients that are domiciled in the USA, which are invoiced for services in US dollars, along with the rapid appreciation in the Canadian dollar vis-à-vis the US dollar occurring during both the 2016 and 2015 second quarters. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

Provision for Income Taxes

The basic rate of 26.50% was applied to the pre-tax income in the 2016 first quarter (2015 – 26.50%), resulting in a deferred income tax expense of $43,337 (2015 - $nil).

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 2028 and 2035 if not used.

The Company's wholly-owned subsidiary also has available investment tax credits (ITCs) of approximately $253,000 to reduce future income taxes payable, expiring $73,000 in 2018, $129,000 in 2019, and $51,000 in 2020.

As a result of recognizing deferred income tax expense of $43,337 in the second quarter of 2016 and $67,066 in the first quarter, at April 30, 2016, the Company had tax assets totaling $638,597 (October 31, 2015 – $749,000). The amount of the deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. Prior to fiscal 2014, management concluded that estimates of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture in fiscal 2014 and reduction in the secured debt to $nil in fiscal 2015 has eliminated interest expense going forward. The Company and its subsidiary have also generated net taxable income in five of the last six years. These facts, along with management's expectations regarding future profitability have all factored into the estimate of deferred tax assets that are probable of recovery.

Comprehensive Income and Income Per Share

As a result of the factors discussed above, the comprehensive income for the three months ended April 30, 2016 was $120,199 as compared to income of $155,555 in the three months ended April 30, 2015.

Three months ended April 30,

	2016	2015
	$	$
Comprehensive income	120,199	155,555
Income per share:		
Basic	0.00	0.01
Diluted	0.00	0.01

For the three months ended April 30, 2016, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2015 – 27,286,332).

Six months ended April 30, 2016 compared to Six months ended April 30, 2015

Revenue

	2016	2015	Change	Change %
	$	$	$	
Software	1,056,308	799,194	257,114	32.2%

Revenues in the six months ended April 30, 2016 increased in comparison to the same period in the prior year. The Company's total sales for the six months ended April 30, 2016 were $1,056,308 as compared to $799,194 for the corresponding period in 2015, an increase of $257,114 or 32.2%. In fiscal year 2012, the Company decided to exit the relatively low margin Commercial Self Service product market and, as a result, revenue is now exclusively from the sale of software licenses and services. As the Company migrates to the "software-as-a-service" model, the sales cycle is shortening and the service is paid monthly.

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, product support and hosted services. The majority of the Company's licensed systems customers renew their product support agreements annually, in order to stay current with new features and developments.

In the first half of 2016, software revenue represented 100% of the total revenue for the period, compared to 100% in the 2015 half. Recurring revenue, including maintenance, product support and hosted services (SaaS) revenue for the six months ended April 30, 2016 represented $784,547 of the total software revenue compared to $589,101 for the corresponding six months the previous year, an increase of $195,446 or 33.2%. Recurring revenue represented 74.3% of total sales revenue in the six months ended April 30, 2016, as compared to 73.7% in the same six months of fiscal 2015.

Currency Controller license fees for the six months ended April 30, 2016, were $228,247 compared to $142,137 for the 2015 comparative period. And Cirreon license fees for the six months ended April 30, 2016, was $10,913 compared to $16,893 for the 2015 comparative period. In the first half of 2016, revenue related to upgrading existing systems of $26,592 represents a decrease of $24,471 compared to $51,063 from the corresponding period in 2015. Consulting revenue in the first half of 2016 was $6,009 compared to $nil in the first half of 2015.

Cost of Goods Sold and Gross Profit

Six months ended April 30, 2016 compared to Six months ended April 30, 2015

Historically, the sales mix between software license fees, hosted products and royalties impacted 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.

Cost of goods sold for the six months ended April 30, 2016 was $321,790 compared to $210,147 in the corresponding period in 2015. The overall Gross Profit achieved in the first half of 2016 was $734,518 or 69.5%, compared to Gross Profit for the corresponding period in 2015 of $589,047 or 73.7%, a decrease in Gross Margin percentage of 4.2 percentage points.

Selling Expenses

Six months ended April 30, 2016 compared to Six months ended April 30, 2015

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 six months ended April 30, 2016, totaled $105,419, an increase of $13,956 or 15.3% from $91,463 in the corresponding period of 2015. This increase is mostly because bonuses of $13,000 were accrued in the current period, whereas no bonuses were accrued in the comparative period. Selling expense was 10.0% of revenue in the first half of 2016 as compared to 11.4% in the 2015 same half, recognizing that revenues in the 2016 period were up $257,114 or 32.2% from the 2015 comparative period.

General and Administration Expenses

Six months ended April 30, 2016 compared to Six months ended April 30, 2015

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

G&A expense totaled $201,016 in the six months ended April 30, 2016 as compared to $160,602 in the 2015 comparative period, an increase of $40,414 or 25.2%.

As a result of higher software sales in the six months ended April 30, 2016, a higher proportion of G&A expenses were absorbed into product costs. This impacted G&A expense downward by $71,551 in the 2016 first half as compared to the year earlier same half. However, in the first half of 2016, bonuses payable to staff of $37,000 were accrued under the Company's employee incentive compensation plan, whereas no accrual was made in the comparative half. In addition, other staffing costs were higher by $68,131 with the recruitment of a new software developer, and compensation increases for the other members of the product development team, which occurred after the first half of 2015. Various other G&A expenses increased by $6,834 in the current half.

Depreciation and amortization for the six months ended April 30, 2016, of $1,155 decreased by $3,576 or 75.6% from $4,731 in the same period of 2015. The level of amortization is a result of the Company incurring only minor expenditures for intellectual assets and property and equipment over the last several years and due to the write-off of intellectual assets in the fourth quarter of 2015, which had a carrying value of $19,428, associated with a technology for which patent protection is no longer being pursued.

With the increase in sales, as noted above, and the increase in G&A expenses, the G&A expense ratio as compared to revenue was 19.0% in the first half of 2016 as compared to 20.1% in the 2015 first half.

Financing and Other Costs

The Company's secured debt is currently $nil (October 31, 2015 - $nil). On April 30, 2015, the Company paid $150,000 to the Secured Lender reducing the outstanding balance of the Credit Facility to $nil. The Credit Facility was not renewed upon its expiry, October 31, 2015. Interest expense on the secured debt in the April 30, 2016, half-year period was $nil (2015 – $5,951).

Loss (gain) on foreign exchange

The Company recognized a loss on foreign exchange of $11,467 in the first half of 2016, whereas a gain of $57,280 was experienced in the comparative half of 2015. This results in a decrease in income of $68,747 in 2016 as compared to the 2015 same period. The loss or gain on foreign exchange, recognized in any given period, is a result of both the large number of clients that are domiciled in the USA, which are invoiced for services in US dollars, along with the appreciation or decline in the Canadian dollar vis-à-vis the US dollar occurring during the period. The Company invoices its foreign customers in US dollars and recognizes a foreign exchange gain (loss) when the Canadian dollar amount of the receivable at period end, or the amount received in the period, is greater (less) than at the time of invoicing.

Provision for Income Taxes

The basic rate of 26.50% was applied to the pre-tax income in 2016 (2015 – 26.50%), resulting in a deferred income tax expense of $110,403 (2015 - $nil).

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 2028 and 2035 if not used.

The Company's wholly-owned subsidiary also has available investment tax credits (ITCs) of approximately $253,000 to reduce future income taxes payable, expiring $73,000 in 2018, $129,000 in 2019, and $51,000 in 2020.

As a result of recognizing the deferred income tax expense of $110,403 in the first half of 2016, at April 30, 2016, the Company had tax assets totaling $638,597 (October 31, 2015 – $749,000). The amount of the deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. Prior to fiscal 2014, management concluded that estimates of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture in fiscal 2014 and reduction in the secured debt to $nil in fiscal 2015 has eliminated interest expense going forward. The Company and its subsidiary have also generated net taxable income in five of the last six years. These facts, along with management's expectations regarding future profitability have all factored into the estimate of deferred tax assets that are probable of recovery.

Related Party Transactions

The following summarizes the Company's related party transactions:

a) Rent and administration expenses in the amount of $19,170 were incurred in the six months ended April 30, 2016 (2015 - $19,210) from a company that is partially owned by the President of the Company. In addition, consulting expenses for sales and marketing in the amount of $22,500 were incurred in the six months ended April 30, 2016 (2015 - $30,000) from a company that is controlled by the Vice Chairman and Founder of NamSys.

b) Included in trade and other payables at April 30, 2016, are amounts due to directors of $9,000 (October 31, 2015 – $nil); and amounts due to the President of the Company of $nil (October 31, 2015 – $nil).

c) A company controlled by the President of Cencotech ("the Secured Lender") had a first secured loan agreement ("the Credit Facility") with the Company's subsidiary NamSys. The Credit Facility bore interest at the rate of 8% per annum (10% before November 1, 2014), which was its stated rate, payable monthly, and was 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 maturity date and maximum principal amount of the facility were amended on a number of occasions between fiscal 2003 and 2014. The changes to the Credit Facility did not involve additional consideration.

   On October 31, 2014, concurrent with settlement of a final Payment Agreement with the holder of the debenture of the Company, the Secured Lender agreed, with effect from October 31, 2014, to extend the maturity date of the Credit Facility to October 31, 2015 and to decrease the maximum principal amount of the facility from $450,000 to $150,000 and the interest rate from 10% to 8% per annum, payable monthly in arrears. The changes to the Credit Facility did not involve additional consideration.

   On April 30, 2015, the Company paid $150,000 to the Secured Lender reducing the outstanding balance of the Credit Facility to $nil. The Credit Facility was not renewed upon its expiry, October 31, 2015.

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 April 30, 2016, the indebtedness under the Credit Facility is $nil (October 31, 2015 – $nil). Interest expense related to the Credit Facility during the six months ended April 30, 2016 was $nil (2015 – $5,951).

Comprehensive Income and Income Per Share

As a result of the factors discussed above, the comprehensive income for the six months ended April 30, 2016 was $306,213 as compared to income of $388,311 in the six months ended April 30, 2015.

Six months ended April 30,

	2016	2015
	$	$
Comprehensive income	306,213	388,311
Income per share:		
Basic	0.01	0.01
Diluted	0.01	0.01

For the six months ended April 30, 2016, the weighted average number of shares outstanding used to calculate basic income per share was 27,286,332 (2015 – 27,286,332).

Liquidity and Capital Resources

General

The Company has historically funded its activities through cash flow from operations, the issuance of debt and the sale of common shares, warrants and convertible debentures. During the most recent five year period ended October 31, 2015, the Company funded all capital expenditures, operations and debt reduction from a combination of cash flow from operations, the sale of preferred shares, and the renegotiation of its secured debt and debenture.

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 working capital of $798,113 at April 30, 2016, compared to working capital of $464,066 at October 31, 2015. Excluded from the April 30, 2016, working capital calculations are: prepaid expenses of $23,635 (October 31, 2015 – $35,107); and deferred revenue of $472,005 (October 31, 2015 – $135,706).

For the six months ended April 30, 2016, the Company had cash flow from operations of $552,251 as compared to cash flow from operations of $477,507 in the six months ended April 30, 2015. The increase in cash flow from operations is primarily the result of the income for the period, and changes in trade and other receivables, trade and other payables, and deferred revenues in the first half of 2016 versus the 2015 period.

BALANCE SHEET

Intellectual Assets and Plant and Equipment

Intellectual assets and plant 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	5 years 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 plant and equipment are reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recovered. An impairment loss is measured as the amount by which the carrying value of the long-lived asset exceeds its recoverable amount.

In fiscal year 2015, the Company wrote-off intellectual assets, with a carrying value of $19,428, associated with a technology for which patent protection is no longer being pursued.

Deferred Income Tax Asset

In the six months ended April 30, 2016, the Company recognized a deferred income tax expense of $110,403 and, as a result, at April 30, 2016, the Company had tax assets totaling $638,597 (October 31, 2015 – $749,000).. The amount of deferred tax asset is based on management's best estimate of probable future taxable income and is subject to a degree of measurement uncertainty. In the past management concluded that projection of future taxable income did not meet the probability requirement to recognize any deferred tax assets given the liquidity risks that created a going concern uncertainty. The repayment of the Company's debenture and issuance of the NamSys preference shares in fiscal 2014, reduction of the secured debt in 2015, along with the recent financial performance, resulted in a change in this estimate. The key assumption in this estimate is the amount of future taxable income that management has concluded is probable to occur.

Financing Agreements

At April 30, 2016, the Company's subsidiary has a $nil (October 31, 2015 – $nil) secured debt arrangement with a related party. The maturity date and maximum principal amount of the facility were amended on a number of occasions between fiscal 2003 and 2014. On October 31, 2014, concurrent with settlement of a final Payment Agreement with the holder of the debenture of the Company, the Secured Lender agreed, with effect from October 31, 2014, to extend the maturity date of the Credit Facility to October 31, 2015 and to decrease the maximum principal amount of the facility from $450,000 to $150,000 and the interest rate from 10% to 8% per annum, payable monthly in arrears. On April 30, 2015, the Company paid $150,000 to the Secured Lender reducing the outstanding balance of the facility to $nil. The Credit Facility was not renewed upon its expiry, October 31, 2015.

On October 29, 2014 the Company's subsidiary, NamSys issued 10,000 First Preference Shares, Series V at a price of $100 per share for total proceeds of $1,000,000. The Company incurred share issue costs of $6,000 with respect to this financing along with a $20,000 guarantee fee for total net proceeds of $974,000. Cencotech Inc. did not participate in this financing and as such the entire share issuance was subscribed by non-controlling interests. The NamSys Series V preference shares are non-voting and have a fixed cumulative preferential dividend at an annual rate of $8.00 per share, payable quarterly if declared. NamSys has the option to redeem the shares for $100 per share at a rate not greater than 4,000 shares per year. NamSys declared and paid a dividend of $20,164 on January 31, 2015, $20,000 on April 30, 2015, $16,000 on July 31, 2015, $16,000 on October 31, 2015, $16,000 on January 31, 2016, and $12,000 on April 29, 2016. On May 1, 2015, NamSys redeemed 2,000 Series V preference shares for a total of $200,000. On both February 1 and April 29, 2016, NamSys redeemed 2,000 Series V preference shares for a total of $400,000, leaving a balance of 4,000 shares outstanding.

Contractual Obligations

A summary of the Company's contractual obligations, at April 30, 2016:

	Total	Less than 1 year	1 to 5 years
	$	$	$
Trade and other payables	99,790	99,790	-
Premises lease	174,375	67,500	106,875
	274,165	167,290	106,875

Capital Expenditures

The Company's primary capital expenditure activities in the past involved the acquisition of deferred development of technology, property, plant and equipment purchases and capital investments into intellectual property. During the first half of 2016, capital expenditures were $3,495 as compared to $5,768 in 2015.

Summary of Significant Accounting Policy Choices or Changes under IFRS

The Company's significant accounting policies have been disclosed in Note 2 of the consolidated financial statements.

Foreign currency translation

The Company has continued to use Canadian dollars as the Company's presentation currency. IFRS requires the assessment of functional currency for the parent and each subsidiary. The functional currency for both the Company and NamSys were determined to be Canadian Dollars.

Plant and equipment and Intellectual Assets

The Company has elected to continue to use an historic cost model in reporting its plant and equipment.

The impairment model used for non-financial assets differs from the model previously used under Canadian GAAP. However, management concluded that there was no impairment in the current and comparative period under both models.

Income taxes

Income tax expense is recognized in net income (loss) except to the extent that it relates to a business combination, or items recognized directly in equity. Income taxes are calculated using the asset and liability method of accounting for income taxes. Under the asset and liability method, deferred tax assets and liabilities are recognized for the deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis and for tax losses and other deductions carried forward.

Deferred income tax assets and liabilities are calculated using substantively enacted tax rates expected to apply when the asset is realized or the liability is settled. An asset is recognized on the consolidated balance sheets when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. The effect on deferred tax assets and liabilities of changes in tax rates are recognized in net income (loss) in the period in which the change is substantively enacted.

Adoption of Accounting Standards

During the period, the Company did not adopt any new accounting standards.

Recent Accounting Pronouncements

Certain new standards and pronouncements were issued by the IASB or the IFRS Interpretations Committee (“IFRIC”) that are mandatory for accounting periods beginning on or after October 31, 2016. Those pronouncements that are not applicable or do not have a significant impact to the Company have been excluded from the table below. The following pronouncements and standards have not yet been adopted and are being evaluated to determine the resultant impact on the Company:

IFRS 9 – Financial Instruments

During 2014, the IASB issued the complete version of IFRS 9. Under the finalized guidance, IFRS 9 specifies that financial assets be classified into one of three categories: financial assets measured at amortized cost, financial assets measured at fair value through profit or loss or financial assets measured at fair value through other comprehensive income. IFRS 9 introduces changes to measuring an entity’s own credit risk in the valuation of financial liabilities. The final standard also introduces a new “expected credit loss” model for calculating impairment, and new general hedge accounting requirements that align more closely with an entity’s risk management model. IFRS 9 will be mandatorily effective for the Company’s fiscal year beginning on November 1, 2018, and early adoption is permitted. The Company will continue to monitor developments and assess the financial impact of this new standard.

IFRS 15 – Revenue from Contracts with Customers

During 2014, the IASB established principles for reporting about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard provides a single, principles based model for revenue recognition to be applied to all contracts with customers. IFRS 15 will be effective for the Company's fiscal year beginning November 1, 2018, with earlier adoption permitted.

IFRS 16 – Leases

In 2016, the IASB issued its new leasing standard. IFRS 16 eliminates the classification of leases as either operating leases or finance leases as previously required by IAS 17. Instead, it introduces a single lease accounting model that requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value, and to depreciate the lease assets separately from interest on the lease liabilities on the income statement. IFRS 16 will be effective for the Company's fiscal year beginning November 1, 2019, with earlier adoption permitted if the entity also adopts IFRS15.

The Company continues to monitor IASB ongoing activity and proposed changes to IFRS. Several accounting standards that are in the process of being amended by the IASB (i.e. leases and conceptual framework and annual updates) which may have an impact on the Company's future consolidated financial statements.

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 April 30, 2016

Class	Authorized	Issued and Outstanding
Common	Unlimited	27,286,332

No common shares are reserved for issuance with respect to Options granted under the Company's stock option plan as at April 30, 2016.

Employee Long Term Bonus Plan

On June 29, 2015, both the Directors of the Company and its subsidiary NamSys passed concurrent resolutions establishing Employee Long Term Bonus Plans (the "Plans"). The purpose of the Plans is to compensate and reward employees and officers, as determined at the sole discretion of the Directors, upon the occurrence of one of the following events:

i) all or substantially all of the assets of NamSys are sold, or otherwise transferred, to an arm's length third party; or
ii) all or substantially all of the common shares of NamSys, held by the Company, are sold, or otherwise transferred, to an arm's length third party; or

iii) more than 50% of the common shares of the Company are sold, or otherwise transferred, to an arm's length party.

On the occurrence of one of the above noted change of control events, the Company or its subsidiary NamSys will cause an aggregate of 15% of the transaction consideration to be payable to the employees and officers, as determined by the Directors, at that time. As of the balance sheet date of April 30, 2016, the Company does not envision a change of control event occurring within the foreseeable future.

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 April 30, 2016, 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 an internal control weakness 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, other checks and balances are in place, as noted below, and no such misstatement has occurred.

Management believes it has remedied the above noted control weakness by enhancing the review of the accounting process. In order to mitigate the impact of this weakness and to ensure quality financial reporting, there are supervisory controls exercised by management and audit committee oversight, and interim and annual financial statements are reviewed by the Company's board.

Critical Accounting Estimates

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that effect the application of policies and reported amounts of assets and liabilities, revenue and expenses and the accompanying notes. Actual results could differ from these estimates under the circumstances. Accounting estimates will, by definition, seldom equal the actual results. The areas that management makes critical estimates, assumptions and judgments are useful lives and impairment of intellectual assets and plant and equipment, probable future taxable income, probable change in control event occurring, recoverability of deferred income tax assets, and functional currency of the Company and its subsidiary. Actual results could differ from those estimates.

Investor Relations

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

Legal Proceedings

There are no outstanding legal proceedings.

Environmental Issues

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

Risk Factors

Seasonality and Inflation

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

Market Risks

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

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

Market Condition Risks

The Company's products are sold to large participants in the currency management marketplace including banks, currency providers and in turn their large retail clients. While all of these participants are interested in improving their efficiency in managing and handling cash and coin, the reality is the present economic uncertainty may well cause them to restrict capital budgets required to bring this efficiency to their operations. Further, the merger and acquisition activity in the financial services sector at the present time creates both an opportunity and risk for suppliers to the industry. When two banks merge, the continuing entity usually selects one technology provider for a given function. Our experience in the past would suggest that the provider with the largest installed base in the combined entity will replace the provider with the smaller installed base, predicated upon a smaller cost of conversion rather than ultimate efficiency of one service versus another. The good news, however, is that currency management and handling systems are absolutely required by the surviving entity.

While large retailers may not be prepared to make capital acquisitions of sophisticated cash and coin handling systems, the major currency providers and carriers have for the last few years been transitioning their business to the provision of a complete turnkey service as opposed to merely transporting currency and coin to and from retail establishments. Our technology for this market is leading edge and has been adopted by the largest of these currency transport and providers.

Financing Risk

There is risk associated with the Company's ability to secure additional financing.

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. However, our products are considered by the marketplace to be "state-of-the-art" and the stature of our marketing partners mitigate the competitive risk.

Product Performance and Availability Risk

The Company's products are tested extensively and must meet certain quality assurance tests prior to delivery to customers. However, many of the products sold to the market utilize subassemblies produced by other manufacturers. Product failures or lack of availability can result in a number of risks to the business including: market reputational risks and warranty/cost of goods expense risks.

Market for Securities

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

Toronto, Ontario
June 29, 2016