

JEMTEC INC.

Management Discussion and Analysis

October 31, 2005

This Management Discussion and Analysis of JEMTEC Inc. ("JEMTEC" or the "Company") provides analysis of JEMTEC's financial results for the fiscal quarter ended October 31, 2005. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes as at October 31, 2005. This discussion is meant to be an update of the Management Discussion and Analysis for the fiscal year ended July 31, 2005, dated November 22, 2005 and does not necessarily repeat information that has not significantly changed since the audited Annual Financial Statements were issued.

The item numbering in this discussion refers to the numbering and headings as per the Form 51-102F1. Inapplicable items have been omitted.

This discussion includes statements about the Company's expectations for the future. The Company's management team believes that these expectations are reasonable; however, actual outcomes may differ materially from these expectations due to changes in operating performance, unexpected competition and other technical, market and economic factors.

Item 1. Date: December 28, 2005

This Management Discussion and Analysis, dated December 28, 2005, is to accompany the unaudited financial statements of the Company for the fiscal quarter ended October 31, 2005.

Item 2. Overall Performance and Description of Business.

JEMTEC is incorporated under the laws of Ontario, Canada. The Company is the leading provider of integrated technology systems for community-based corrections in Canada. The Company's core business is the provision of services and technology for offender monitoring in Canadian federal and provincial correctional departments.

The common shares of JEMTEC Inc. trade through the facilities of the TSX Venture Exchange under the symbol JTC.

Below is summarized information selected from the Company's unaudited financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

	Quarters Ended October 31		
	2005	2004	2003
Revenue	\$667,979	\$630,647	\$136,770
Expenses	427,427	270,018	221,831
Net income (loss) before income taxes	240,552	360,629	(85,061)
Income tax expense	90,634	-	-
Net income (loss) for the period	<u>\$149,918</u>	<u>\$360,629</u>	<u>\$(85,061)</u>
Earnings (loss) per share			
Basic	<u>\$0.06</u>	<u>\$0.17</u>	<u>\$(0.04)</u>
Diluted	<u>\$0.06</u>	<u>\$0.17</u>	<u>\$(0.04)</u>

Item 4 and 5. Results of Operations, Quarterly Results

The interim unaudited financial statements for the quarter ended October 31, 2005 summarize the financial impact of the Company's financings, investments and operations while providing significant material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

	Quarters Ended									
	October-31	July-31	April-30	January-31	October-31	July-31	April-30	January-31	October-31	
	2005	2005	2005	2005	2004	2004	2004	2004	2003	
Revenue	\$667,979	\$685,048	\$647,895	\$636,722	\$630,647	\$836,549	\$435,104	\$216,122	\$136,770	
Expenses	427,427	514,187	368,893	316,231	270,018	531,529	221,566	235,502	221,831	
Net Income (Loss) Before Taxes	\$240,552	\$170,861	\$279,002	\$320,492	\$360,629	\$305,020	\$213,538	\$(19,380)	\$(85,061)	
Provision for Taxes	90,634	73,127	100,451	246,510	-	-	-	-	-	
Net Income (Loss)	\$149,918	\$ 97,734	\$178,551	\$ 77,611	\$360,629	\$305,020	\$213,538	\$(19,380)	\$(85,061)	
Basic Earnings (loss) per share	\$ 0.06	\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.17	\$ 0.15	\$ 0.11	\$ (0.01)	\$ (0.04)	

The Company recorded a net income of \$149,918 for the quarter ended October 31, 2005, as compared to \$360,629 for the quarter ended October 31, 2004. At October 31, 2005, the Company had a working capital of \$1,586,070, retained earnings of \$427,786 and assets in excess of liabilities of \$1,757,130.

Revenues

Revenues are earned from leasing, monitoring and activation services as well as the sale of parts. The Company's revenues for the quarter ended October 31, 2005 were 6% higher than for same period last year. This growth in revenues is directly attributable the Company moving into private bail monitoring in addition to its existing equipment leasing and electronic monitoring services business.

The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 92% of revenue during the quarter ended October 31, 2005 and 93% in 2004. These contracts are reviewed periodically and the non-renewal of one or more of these contracts would have a material adverse impact on the Company.

	Quarters Ended October 31		
	2005	2004	2003
Revenue			
Leasing, monitoring and activation	\$ 667,354	\$ 628,976	\$ 136,127
Parts, sales and other	625	1,671	643
Total revenue	\$ 667,979	\$ 630,647	\$ 136,770

Expenses

The Company's expenses for the quarter ended October 31, 2005 were 58% higher than for same period last year. Key operational items that drove the expenses for the period were, monitoring and activation fees, which increased \$50,965 over the previous comparable period, equipment rent and installation, which increased \$31,439 over the previous comparable period offset by a decrease in

repairs and maintenance fees of \$21,716 over the previous comparable period. This decrease in repairs and maintenance is due to replacing older equipment with new equipment in Saskatchewan. The increasing costs of Monitoring and Activation fees along with equipment rent and installation of \$82,404 which is related to an increase in the overall number of clients monitored and in the number of clients monitored on the more expensive radio frequency technology versus the less costly voice verification technology in the previous period. Should this trend continue, expenses will increase somewhat in future periods.

Monitoring equipment requires the replacement of batteries and parts such as: clamps, straps, transformers and latches. Monitoring units needing servicing are sent to our facilities in Vancouver and/or to our monitoring support partners in the USA for repair and replacement parts. Monitoring and activation expenses are services offered to our clients across Canada, which are supported by our network of sub-contractors who provide data input, installation, monitoring and event response support.

Also, included in expenses are costs associated with the Company's administrative and finance functions, salaries, consulting, professional fees, office rent and other corporate related expenses. The key increase in these expenses is a stock based compensation expense of \$57,572 (2004 - nil) which results from the Company expensing options granted in the year ended July 31, 2005 which are vesting over 18 months.

Net earnings

For the fiscal quarter ended October 31, 2005 net income was \$149,918 compared to \$360,629 in 2004. This difference is attributable primarily to three factors: (1) the Company did not accrue for income taxes payable during the quarter ended October 31, 2004 since there was an accumulated deficit; (2) stock based compensation expense related to options granted during fiscal year ended July 31, 2005 was recorded in the quarter ended October 31, 2005 and; (3) the Company has incurred higher monitoring and activation fees and equipment rent & installation expenses in 2005 as compared to 2004.

Category	Changes - Quarter ended October 31, 2005 as compared to 2004
Amortization	Increase: Additional equipment related to the Ontario and Saskatchewan projects being depreciated
Repairs and maintenance	Decrease: The decrease in repairs resulted as the Company replaced old equipment with new equipment
Monitoring and activation fees	Increase: Greater number of clients being activated and monitored
Equipment rent and installation	Increase: Greater number of clients being monitored
Consulting fees	Increase: A Corporate development program was started
Office	Increase: Additional telecommunication services required to service our growing client base.
Interest on capital leases	Increase: New capital lease
Stock-based compensation	Increase: 330,000 options were granted in the year ended July 31, 2005 which are vesting over 18 months.
Directors' fees	Increase: In late 2004, the Company began to pay an annual fee to its directors, as well as a fee per meeting attended.

During the quarters ended October 31, 2005 and 2004, the Company incurred similar levels of expenses for salaries and benefits, travel, shareholder communications, professional fees, other interest and accounting and administrative fees.

Item 6 and 7. Liquidity, Financial Position and Capital Resources

During the year ended July 31, 2005, the Company has leased and acquired property and equipment to enable the Company to provide the services of a five year monitoring contract in the Province of Saskatchewan. Accordingly, the Company has entered into capital leases to finance the acquisition of some new equipment for the Saskatchewan contract.

Liquidity

At October 31, 2005, the Company had cash of \$1,762,788 and a working capital of \$1,586,070.

Financial Position	<u>As at October 31, 2005</u>	<u>As at July 31, 2005</u>
Current assets	\$ 2,048,641	\$ 2,174,549
Property and equipment	\$ 352,678	\$ 365,122
Other assets	\$ 39,361	\$ 41,947
Total assets	<u>\$ 2,440,680</u>	<u>\$ 2,581,618</u>
Current liabilities	\$ 462,571	\$ 793,056
Capital lease obligation	\$ 220,979	\$ 238,922
Total liabilities	<u>\$ 683,550</u>	<u>\$ 1,031,978</u>
Stockholder's equity	<u>\$ 1,757,130</u>	<u>\$ 1,549,640</u>
Working capital	<u>\$ 1,586,070</u>	<u>\$ 1,381,493</u>

Significant working capital components include cash in current or interest bearing accounts, accounts receivable from clients, prepaid expenses, accounts payable and accrued liabilities, income taxes payable and the current portion of deferred revenues and capital leases.

Accounts receivable and accounts payable are expected to increase as sales volumes increase. During the quarter ended October 31, 2005, the Company has reduced its current accounts receivable through faster collection of certain receivables and has reduced its current liabilities by remitting the taxes payable for fiscal year ended July 31, 2005.

Deferred revenues will continue to fluctuate in relation to the Company earning revenue on its Private Bail Project. These clients pay in advance typically for one or more years monitoring and revenue is earned and recorded as the service is provided.

The Company's operating cash flows during the quarter ended October 31, 2005 were comparable to cash flows in 2004, with a surplus of \$90,859 for the quarter ended October 31, 2005, as compared to \$80,076 for the quarter ended October 31, 2004.

The Company's management is not aware of any trends or expected fluctuations in its liquidity that would create any deficiencies. In addition, the Company's management believes that its cash balances and its cash flow from continuing operations will be sufficient to meet the Company's short-term and long-term requirements for ongoing operations and planned growth, the Company however derives a significant portion of its revenue from one customer, which contributed approximately 92% of revenue for the quarter ended October 31, 2005 (refer to Note 8 of the Company's unaudited financial statements for the quarter ended October 31, 2005). A decision by this customer to discontinue, in whole or in part, use of the Company's services in the future may adversely affect the Company's capital resources and operating results.

Capital Requirements and Resources

The Company anticipates that it will have little need to acquire property and equipment over the next year. The Company has adopted a more flexible arrangement, whereby it adds value to rented equipment, and then provides this equipment to its customers. Should the Company encounter opportunities in which it is more financially advantageous to purchase or lease property and equipment as compared to renting, the Company would finance these capital expenditures and other contractual obligations through capital leases, cash flows from operations, and possibly long term borrowings.

Item 14. Financial Instruments

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash. At October 31, 2005, the Company had cash balances that exceeded the federally insured limits by \$1,262,788.

Item 15. Capital Stock, Stock Options and Warrants

Share Capital

The Company has only three classes of share capital:

Common shares:	Unlimited
First preference shares:	Unlimited, issuable in series
Second preference shares:	25,000 Series A, \$0.60 non-cumulative and redeemable

The Company also has a stock option plan.

The following are outstanding at December 28, 2005:

Common shares	2,355,943
Shares issuable on the exercise of outstanding stock options	345,716
Shares available for future stock option grants	68,616

The stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 414,332.

Disclosure Controls and Procedures

The Company has designed disclosure controls and procedures and has evaluated their effectiveness. Based on the evaluation of the Company's disclosure controls and procedures, the Company's management has concluded that they are sufficiently effective as of October 31, 2005 to provide reasonable assurance that material information relating to the Company is made known to management and disclosed in accordance with applicable securities regulations.

Other Information

Additional information relating to the Company financials is available on the SEDAR website at www.sedar.com.