

JEMTEC INC.

Management Discussion and Analysis

July 31, 2005

This Management Discussion and Analysis of JEMTEC Inc. ("JEMTEC" or the "Company") provides analysis of JEMTEC's financial results for the fiscal year ended July 31, 2005. The following information should be read in conjunction with the accompanying audited financial statements and the notes to the audited financial statements as at July 31, 2005.

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: November 22, 2005

This management discussion and analysis, dated November 22, 2005, is to accompany the financial statements of the Company for the fiscal year ended July 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.

JEMTEC's mission is to lead the Canadian criminal justice market by providing our customers integrated services and state-of-the-art technology systems. Our vital essence as a company is to make society a better and safer place. Each of our technologies and programs is designed with this corporate mission in mind and we believe that working together with criminal justice professionals, we can help ensure public protection and the delivery of effective and accountable correctional services.

The management approach in offering different levels of technology allows Corrections, Courts and Police to select from a variety of options ensuring the correct level of offender control at the lowest overall cost. Offender Location detection/verification technologies include: Offender Reporting Kiosks with integrated database, GPS Active and Passive tracking, Voice Verification, Electronic Monitoring house arrest systems, Remote Alcohol in-home monitoring and Private monitoring services.

The Company is the exclusive Canadian distributor of Pro-Tech Monitoring, Inc's ("Pro-Tech") and BI Inc.'s offender monitoring and tracking devices, the sales and leasing of which account for substantially all of the Company's 2005 and 2004 revenues, capital asset additions and replacement parts purchased. The Company is economically dependent on Pro-Tech and BI Inc. for the continued supply of monitoring equipment, replacement parts, and maintenance services provided by Pro-Tech and BI Inc. for resale or rental by the Company.

Item 3. Annual Information

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

	Years Ended		
	31-Jul-05	31-Jul-04	31-Jul-03
Revenue	\$ 2,600,312	\$ 1,624,545	\$ 451,444
Expenses	1,465,699	1,002,887	739,463
Net income (loss) before income taxes	1,134,613	621,658	(288,019)
Income tax recovery (expense)	(420,088)	(207,541)	94,924
Net income (loss) for the year	\$ 714,525	\$ 414,117	\$ (193,095)
Earnings (loss) per share			
Basic	\$ 0.33	\$ 0.20	\$ (0.09)
Diluted	\$ 0.32	\$ 0.19	\$ (0.09)

Item 4 and 5. Results of Operations, Quarterly Results

The audited financial statements for the years ended July 31, 2005 and 2004 summarize the financial impact of our 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							
	July 31, 2005	Apr. 30, 2005	Jan. 31, 2004	Oct. 31, 2004	July 31, 2004	Apr. 30, 2004	Jan. 31, 2003	Oct. 31, 2003
Revenue	\$ 685,048	\$ 647,895	\$ 636,722	\$ 630,647	\$ 836,549	\$ 435,104	\$ 216,122	\$ 136,770
Expenses	587,314	469,344	559,111	270,018	531,529	221,566	235,502	221,831
Net income (loss)	\$ 97,734	\$ 178,551	\$ 77,611	\$ 360,629	\$ 305,020	\$ 213,538	\$ (19,380)	\$ (85,061)
Basic earnings (loss) per share	\$ 0.04	\$ 0.08	\$ 0.04	\$ 0.17	\$ 0.15	\$ 0.11	\$ (0.01)	\$ (0.01)

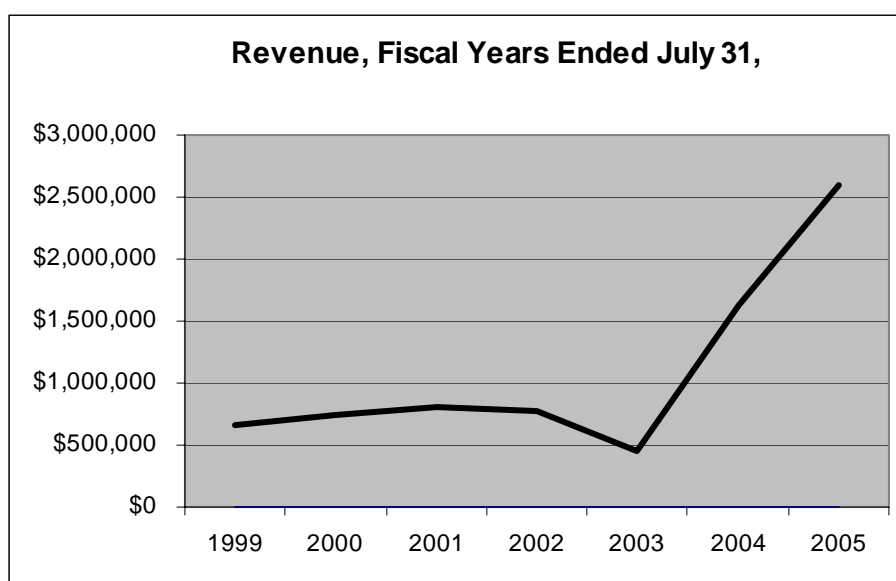
Comparative Results

	Increase in 2005 compared to 2004	Years Ended July 31,	
		2005	2004
Revenue	60%	\$ 2,600,312	\$ 1,624,545
Expenses	46%	\$ 1,465,699	\$ 1,002,887
Income before taxes	83%	\$ 1,134,613	\$ 621,658
Income after taxes	73%	\$ 714,525	\$ 414,117

The Company recorded a net income of \$714,525 for the year ended July 31, 2005, a 73% increase in net income after taxes as compared to the year ended July 31, 2004. This significant improvement is attributable primarily to moving out of development phase and into main phase of select projects and offset by the Company providing for income taxes. As well, the Company began earning revenue on its start up Private Bail Project. At July 31, 2005, the Company had a working capital of \$1,381,493, retained earnings of \$277,868 and assets in excess of liabilities of \$1,549,640. Cash flows from operations have increased by 47%, from a surplus of \$678,927 in 2004, to a surplus of \$998,632 for the year ended July 31, 2005 due to increased net income for the year.

Revenues

Revenues are earned from leasing, monitoring and activation services. Our revenues for the fiscal year ended July 31, 2005 were 60% higher than for last year. This growth in revenues is directly attributable the Company to moving out of development phase in its Public Private Partnership with the Ontario Government and into main the phase of this project.



The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 93% of revenue in 2005 and 88% in 2004. These contracts are reviewed periodically and the non-renewal of one or more of these contracts could have a material adverse impact on the Company.

	Years Ended July 31,		
	2005	2004	2003
Revenue			
Leasing, monitoring and activation	\$ 2,582,349	\$ 1,620,949	\$ 397,393
Parts, sales and other	17,963	3,596	54,051
Total revenue	\$ 2,600,312	\$ 1,624,545	\$ 451,444

Rental and monitoring income is recognized pursuant to various lease agreements which specify the terms and conditions of rental and the services to be performed and electronic surveillance. Rental income is recognized on a straight-line basis over the terms of the leases. Revenue from the sale of parts which are required to repair and maintain the monitoring equipment is recognized upon delivery to the lessee. Maintenance and monitoring service income is recognized when the services are performed.

The Company recognizes sales and leasing revenue over the term of the applicable operating services agreements. The term of existing service agreements is between three to five years. Generally, the lessees have the option to renew or cancel the lease and service agreements upon the expiration of each lease term or, in certain circumstances, the agreements may be cancelled upon specific notice provided to the Company. In situations where leases are terminated, the leased monitoring equipment would be returned to the Company or the Company's lessors with no further obligation on behalf of the lessee.

Expenses

Expenses are comprised primarily of monitoring and activation fees, equipment rent and installation and repairs and maintenance fee. Repair and maintenance expenses are comprised of repairs and maintenance of monitoring equipment, freight and delivery of monitoring parts and monitoring, activation and installation expenses. 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 personnel and related costs associated with the Company's administrative and finance functions, salaries, consulting, professional fees, office rent and other corporate related expenses.

Net earnings

For the year ended July 31, 2005 net income was \$714,525 compared to \$414,117 in 2004. This improvement is attributable primarily to the Company moving out of development phase in its Public Private Partnership with the Ontario Government and into the main phase of this project. As well, the Company began earning revenue on its start up "Private Bail Project" in which clients pay to be electronically monitored in order to win bail release while awaiting trial.

Category	Changes - Fiscal 2005 Compared to 2004
Salaries and benefits	Increase: Higher salary and bonus for performance by an officer/director of the Company
Depreciation and Amortization	Increase: Additional equipment related to the Ontario and Saskatchewan projects being depreciated
Repairs and maintenance	Increase: 5 year renewal of a contract which required replacement of equipment, parts, training and installation
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
Shareholder communications	Increase: Shareholders became active which required updating information driving higher transfer agent costs as share price increased
Office	Increase: Additional telecommunication services required to service our growing client base.
Interest on capital leases	Increase: New capital lease
Stock-based compensation	Increase: No options were granted during 2004, while 330,000 options were granted in 2005
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, and implemented an incentive bonus agreement with the directors.

During the year ended July 31, 2005, the Company incurred similar levels of expenses for travel, professional fees, other interest and accounting and administrative fees.

Item 6, 7 and 8. Liquidity, Financial Position and Capital Resources

The Company has leased and acquired property and equipment to enable us to provide the services of a five year monitoring contract in the Province of Saskatchewan, and the Company has entered into capital leases to finance the acquisition of some of the Saskatchewan property and equipment.

Liquidity

At July 31, 2005, the Company had cash of \$1,699,756 and a working capital of \$1,381,493.

Financial Position	As at July 31,		
	2005	2004	2003
Current assets	\$ 2,174,549	\$ 944,720	\$ 168,909
Property and equipment	\$ 365,122	\$ 59,085	\$ 112,297
Other assets	\$ 41,947	\$ 52,291	\$ 156,349
Total assets	\$ 2,581,618	\$ 1,056,096	\$ 437,555
Current liabilities	\$ 793,056	\$ 370,025	\$ 135,615
Capital lease obligation	\$ 238,922	\$ 9,735	39,721
Total liabilities	\$ 1,031,978	\$ 379,760	\$ 175,336
Stockholders' equity	\$ 1,549,640	\$ 676,336	\$ 262,219
Working capital	\$ 1,381,493	\$ 574,695	\$ 33,294

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 unearned revenues and capital leases.

Prepaid expenses, accounts receivable and accounts payable are expected to increase as sales volumes increase; although we have reduced the current liabilities by remitting the taxes payable for fiscal year ended July 31, 2005.

Unearned 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.

The Company's operating cash flows were a surplus of \$998,632 during the year ended July 31, 2005, as compared to \$678,927 in 2004. The improvement in cash flows from operations is mainly due to increased revenues and a slower increase in expense against revenue.

During the year, 284,284 options were exercised, for net proceeds of \$93,712. The Company financing activities also included payment of \$90,586 for capital leases.

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 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 93% of revenue for the year ended July 31, 2005 (refer to Note 8 of the Company's audited financial statements for the year ended July 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 9. Fourth Quarter

JEMTEC INC.

Statements of Operations

For the Fourth quarters ended July 31,

	2005	2004
Revenue		
Leasing, monitoring and activation	\$ 675,481	\$ 834,179
Parts, sales and other	9,567	2,370
	<u>685,048</u>	<u>836,549</u>
Expenses		
Salaries and benefits	61,497	67,474
Depreciation and amortization	19,991	6,616
Repairs and maintenance	14,117	9,673
Monitoring and activation fees	128,782	105,494
Equipment rent and installation	65,737	28,815
Consulting fees	39,386	30,570
Travel	8,547	11,753
Shareholder communications	3,776	3,134
Professional fees	5,200	7,354
Office	24,173	20,441
Interest on capital leases	7,453	599
Other interest expenses	17	- 185
Stock-based compensation	46,693	-
Directors' fees	84,318	26,250
Accounting and administrative fees	4,500	6,000
	<u>514,187</u>	<u>323,988</u>
Net income before income taxes	<u>170,861</u>	<u>512,561</u>
Income tax expense		
Current	(62,783)	(103,483)
Future	(10,344)	(104,058)
	<u>(73,127)</u>	<u>(207,541)</u>
Net income for the period	<u>97,734</u>	<u>305,020</u>
Earning (deficit) - Beginning of period	<u>180,134</u>	<u>(741,677)</u>
Earnings (deficit) - End of period	<u>277,868</u>	<u>(436,657)</u>

Comparative Results	Fourth Quarter	Fourth Quarter	Year Ended
	Results as % of 2005	Ended July 31, 2005	July 31, 2005
Revenues	26%	\$ 685,048	\$ 2,600,312
Expenses	35%	\$ 514,187	\$ 1,465,699
Income before taxes	15%	\$ 170,861	\$ 1,134,613
Income after taxes	14%	\$ 97,734	\$ 714,525

Item 12. Critical Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expense during the reported periods. Actual results could differ from those estimates.

Reference should be made to Note 2 - Significant Accounting Policies in the notes to the Company's audited annual financial statements for the year ended July 31, 2005 for more information concerning the accounting principles used in the preparation of the Company's financial statements.

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 July 31, 2005, the Company had cash balances that exceeded the federally insured limits.

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 fixed stock option plan.

The following are outstanding at November 22, 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 July 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 is available on the SEDAR website at www.sedar.com and on the Company's website at www.JEMTEC.ca