

JEMTEC INC.

FINANCIAL STATEMENTS

JANUARY 31, 2005 and 2004

(Unaudited)

JEMTEC INC.
Suite 200-38 Fell Avenue
North Vancouver, B.C. V7P 3S2

Notice to Reader

The accompanying unaudited interim financial statements of Jemtec Inc. for the period ended January 31, 2005 have been prepared by management and approved by the Audit Committee and the Board of Directors of the Company. These statements have not been reviewed by the Company's independent auditors.

DATED the 18 day of March 2005.

“Eric Caton”

Eric Caton
President and Chief Executive Officer

JEMTEC INC.
Balance Sheets
(Unaudited)

	January 31, 2005	July 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 989,138	\$ 697,998
Accounts receivable	483,917	242,394
Prepaid expense	2,239	4,328
	1,475,294	944,720
Property, Plant And Equipment	445,822	59,085
Future Income Taxes	47,305	52,291
	\$ 1,968,421	\$ 1,056,096
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 175,591	\$ 174,026
Due to related parties	15,000	54,250
Deferred revenue	12,343	10,500
Current portion of capital lease obligation	86,216	27,766
Income taxes payable	241,524	103,483
	530,674	370,025
Capital lease obligation	318,456	9,735
	849,130	379,760
SHAREHOLDERS' EQUITY		
Share capital (note 4)	1,112,993	1,112,993
Contributed surplus (note 4 (c))	4,715	-
Retained earnings	1,583	(436,657)
	1,119,291	676,336
	\$ 1,968,421	\$ 1,056,096

Approved by the Board of Directors:

“Eric Caton”

Director

“Leslie Markow”

Director

JEMTEC INC.
Statements of Operations and Deficit
(Unaudited)

	Three Months Period Ended January 31,		Six Months Period Ended January 31,	
	2005	2004	2005	2004
Revenue				
Leasing, monitoring and activation	\$ 636,660	\$ 215,611	\$ 1,265,636	\$ 351,738
Parts, sales and other	62	511	1,733	1,154
	<u>636,722</u>	<u>216,122</u>	<u>1,267,369</u>	<u>352,892</u>
Expenses				
Salaries and benefits	56,256	38,228	113,200	76,252
Amortization	17,963	21,055	22,292	42,382
Repairs and maintenance (recovery)	(14,043)	2,402	18,709	4,583
Monitoring and activation fees	92,243	72,226	169,262	148,472
Equipment rent and installation	43,157	21,034	63,477	41,096
Consulting fees	27,000	31,170	55,036	61,705
Travel	5,680	4,481	17,892	8,336
Shareholder communications	12,273	11,222	13,668	12,490
Professional fees	5,062	3,332	7,012	6,197
Office	29,511	22,523	52,234	38,925
Interest on capital leases	7,602	986	8,274	2,151
Other interest expense	1,182	843	1,348	1,444
Accounting and administrative fees	5,500	6,000	11,500	13,300
Stock-based compensation	4,715	-	4,715	-
Directors' fees	18,500	-	24,000	-
	<u>312,601</u>	<u>235,502</u>	<u>582,619</u>	<u>457,333</u>
Net Earnings (Loss) for the Period before Income Taxes	324,121	(19,380)	684,750	(104,441)
Provision for Income Taxes (note 6)	246,510	-	246,510	-
Net Earnings (Loss) for the Period	77,611	(19,380)	438,240	(104,441)
Retained Earnings- Beginning of Period	(76,028)	(935,835)	(436,657)	(850,774)
Retained Earnings- End of Period	1,583	(955,215)	\$ 1,583	\$ (955,215)
Earnings (loss) per share				
Basic	\$ 0.04	\$ (0.01)	\$ 0.21	\$ (0.05)
Diluted	\$ 0.03	\$ (0.01)	\$ 0.19	\$ (0.05)
Weighted average number of common shares outstanding				
Basic	2,071,659	2,071,659	2,071,659	2,071,659
Diluted	2,301,288	2,071,659	2,297,412	2,071,659

JEMTEC INC.
Statement of Cash Flows
(Unaudited)

	Three Months Period Ended January 31,		Six Months Period Ended January 31,	
	2005	2004	2005	2004
Cash flows from (used in) operating activities:				
Net earnings (loss) for the period	\$ 77,611	\$ (19,380)	\$ 438,240	\$ (104,441)
Adjusted for items not requiring cash:				
Amortization	17,963	21,055	22,292	42,382
Stock-based compensation	4,715	-	4,715	-
Future income taxes	4,986	-	4,986	-
Change in non-cash working capital balances related to operations				
Increase in accounts receivable	(22,184)	(89,518)	(241,523)	(102,113)
Decrease in prepaid expenses	877	-	2,089	-
Decrease in accounts payable and accrued liabilities	20,398	11,093	1,565	42,383
Increase (decrease) in deferred revenue	(4,485)	-	1,843	-
Increase (decrease) in due to related parties	15,000	-	(39,250)	-
Increase in income tax payable	138,041	22,472	138,041	22,472
Net cash flows provided by (used in) operating activities	<u>252,922</u>	<u>(54,278)</u>	<u>332,998</u>	<u>(99,317)</u>
Cash flows provided by (used in) financing activities				
Bank loan funds received	-	10,000	-	55,000
Payment on capital lease obligation	(35,112)	(6,371)	(41,858)	(12,623)
Net cash flows provided by (used in) financing activities	<u>(35,112)</u>	<u>3,629</u>	<u>(41,858)</u>	<u>42,377</u>
Net cash increase (decrease) in cash and cash equivalents	217,810	(50,649)	291,140	(56,940)
Cash and cash equivalents - Beginning of Period	<u>771,328</u>	<u>45,804</u>	<u>697,998</u>	<u>52,095</u>
Cash and cash equivalents (bank indebtedness) - End of Period	<u>989,138</u>	<u>(4,845)</u>	<u>\$ 989,138</u>	<u>\$ (4,845)</u>

SUPPLEMENTARY INFORMATION ON NON-CASH FINANCING AND INVESTING ACTIVITIES:

During the six month period ended January 31, 2005, the Company entered into a capital lease for monitoring equipment in the amount of \$409,029.

JEMTEC INC.
Notes to Financial Statements
January 31, 2005 and 2004

1. Nature of Operations and Basis of Presentation

The Company's core business is the sales and leasing of electronic monitoring equipment to Canadian provincial and federal government correctional departments.

The interim financial statements of Jemtec Inc. (the "Company") have been prepared by management in accordance with accounting principles generally accepted in Canada. The interim financial statements have been prepared following the same accounting policies and methods of computation as the financial statements for the fiscal year ended July 31, 2004, except as described below. The disclosures included below are incremental to those included with the annual financial statements. The interim financial statements should be read in conjunction with the financial statements and the notes thereto in the Company's annual report for the year ended July 31, 2004.

2. Change In Accounting Policy

During the year ended July 31, 2004, the Company adopted, effective August 1, 2003, the fair value based method of accounting for stock based compensation for all grants of option to employees, non-employees and directors in accordance with the prospective application provision of amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870. All options granted beginning August 1, 2003 are accounted for using the fair value based method, and stock based compensation expense is calculated using the Black-Scholes pricing method ("Black-Scholes")

3. Summary of Significant Accounting Policies

Revenue Recognition

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. 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.

Cash and cash equivalents

Cash and cash equivalents is defined as cash and short-term money market instruments with original maturities of three months or less.

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing earnings by the weighted average number of common shares outstanding during the period.

The Company uses the treasury stock method of calculating diluted earnings (loss) per share. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted earnings (loss) per share assumes that the proceeds to be received on the exercise of stock options or warrants is applied to repurchase common shares at the average market price for the period.

JEMTEC INC.
Notes to Financial Statements
January 31, 2005 and 2004

3. Summary of Significant Accounting Policies, continued

Stock based compensation

The Company's stock based compensation plan is described in Note 4(c). The Company has adopted the fair value based method (Note 2) to account for the stock based transactions with employees, non-employees and directors. Accordingly, the fair value of the stock options at the date of grant is charged to operations on a straight-line basis over the vesting period. Any consideration paid on exercise of stock options together with the related portion previously recognized as stock based compensation is credited to share capital.

4. Share capital

- a) Authorized
 Unlimited common shares
 Unlimited first preference shares, issuable in series

Unlimited second preference shares, issuable in series, of which the directors of the Company have authorized the issuance of 25,000, \$0.60 non-cumulative, redeemable, preference shares designated as Series A.

- b) Issued and allotted

	Number of Shares	Amount
Balance January 31, 2005 and July 31, 2004	2,071,659	\$1,112,993

- c) Options

During the year ended July 31, 2003, the Company entered into a fixed stock option plan which follows the policies of the TSX Venture Exchange ("TSXV") regarding stock option awards granted to employees, directors and consultants. According to the policies of the TSXV, the Company may grant incentive stock options up to a total of 20% of the Company's issued and outstanding common shares issued.

As at January 31, 2005, 350,000 options to purchase common shares of the Company were outstanding as follows:

Number Outstanding	Exercise Price	Expiry Date
150,000	\$0.30	March 12, 2005
150,000	\$0.11	February 24, 2008
50,000	\$0.30	September 21, 2009

Note: As a subsequent event five Directors have selected to exercise some or all of their options

JEMTEC INC.
Notes to Financial Statements
January 31, 2005 and 2004

4. Share capital, continued

c) Options, continued

A summary of the status of the Company's fixed stock option plan as of January 31, 2005, is as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance July 31, 2004	300,000	\$0.21
Granted	50,000	0.30
Balance January 31, 2005	350,000	\$0.22

The table below summarizes information about fixed stock options outstanding at Jan. 31, 2005:

Range Of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$0.11-0.30	350,000	2.03 years	\$0.22	308,333	\$0.21

Subsequent to January 31, 2005, 150,000 options exercisable at \$0.30 and 100,000 options exercisable at \$0.11 were exercised and 250,000 shares were issued.

Stock-based compensation

During the year ended July 31, 2004, the Company adopted, effective August 1, 2003, the fair value based method of accounting for stock based compensation for all grants of option to employees, non-employees and directors in accordance with the prospective application provision of amended Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3870. All option grant beginning August 1, 2003 are accounted for using the fair value based method, and stock based compensation expense is calculated using the Black-Scholes pricing method ("Black-Scholes")

5. Economic dependence

The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 92% of revenue for the six months ended January 31, 2005. These contracts are reviewed periodically and have cancellation provisions. The non-renewal or cancellation of one or more of these contracts could have a material adverse impact on the Company.

Also, the Company is the exclusive Canadian distributor of Pro-Tech Monitoring Inc ("Pro-Tech") and BI Incorporated ("BI") offender monitoring and tracking devices (both U.S. companies) 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 for the continued supply of monitoring equipment, replacement parts, and maintenance services provided by Pro-Tech and BI for resale or rental by the Company.

6. Tax Provision

In previous years due to losses and tax loss carry forwards the Company was rarely required to pay income tax. Now due to more stable revenues the Company feels it is appropriate to provide for income taxes, and as such has incorporated a tax provision starting in the second quarter of this fiscal year.