

JEMTEC INC.

FINANCIAL STATEMENTS

OCTOBER 31, 2004 and 2003

(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 October 31, 2004 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 2th day of December 2004.

“Eric Caton”

Eric Caton
President and Chief Executive Officer

JEMTEC INC.
Balance Sheets
(Unaudited)

	October 31, 2003	July 31, 2004
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 771,328	\$ 697,998
Accounts receivable	461,733	242,394
Prepaid expense	3,116	4,328
	<u>1,236,177</u>	<u>944,720</u>
Property, Plant And Equipment	54,756	59,085
Future Income Taxes	<u>52,291</u>	<u>52,291</u>
	<u>\$ 1,343,224</u>	<u>\$ 1,056,096</u>
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 155,193	\$ 174,026
Due to related parties	-	54,250
Deferred revenue	16,828	10,500
Current portion of capital lease obligation	27,903	27,766
Income taxes payable	103,483	103,483
	<u>303,407</u>	<u>370,025</u>
Capital lease obligation	<u>2,852</u>	<u>9,735</u>
	<u>306,259</u>	<u>379,760</u>
SHAREHOLDERS' EQUITY		
Share capital (note 4)	1,112,993	1,112,993
Deficit	<u>(76,028)</u>	<u>(436,657)</u>
	<u>1,036,965</u>	<u>676,336</u>
	<u>\$ 1,343,224</u>	<u>\$ 1,056,096</u>

Approved by the Board of Directors:

“Eric Caton”

Director

“Leslie Markow”

Director

JEMTEC INC.
Statements of Operations and Deficit
(Unaudited)

	Three Months Period Ended October 31,	
	2004	2003
Revenue		
Leasing, monitoring and activation	\$ 628,976	\$ 136,127
Parts, sales and other	1,671	643
	<u>630,647</u>	<u>136,770</u>
Expenses		
Salaries and benefits	56,944	38,024
Amortization	4,329	21,327
Repairs and maintenance	32,752	2,181
Monitoring and activation fees	77,019	76,246
Equipment rent and installation	20,320	20,062
Consulting fees	28,036	30,535
Travel	12,212	3,855
Shareholder communications	1,395	1,268
Professional fees	1,950	2,865
Office	22,723	16,402
Interest on capital leases	672	1,165
Other interest expense	166	601
Directors' fees	5,500	-
Accounting and administrative fees	6,000	7,300
	<u>270,018</u>	<u>221,831</u>
Net Earnings (Loss) for the Period	360,629	(85,061)
Deficit - Beginning of Period	(436,657)	(850,774)
Deficit - End of Period	\$ (76,028)	\$ (935,835)
Earnings per share		
Basic	\$ 0.17	\$ (0.04)
Diluted	\$ 0.17	\$ (0.04)
Weighted average number of common shares outstanding		
Basic	2,071,659	2,071,659
Diluted	2,077,803	2,071,659

JEMTEC INC.
Statement of Cash Flows
(Unaudited-Prepared by Management)

	Three Months Period Ended October 31,	
	2004	2003
Cash flows from (used in) operating activities:		
Net earnings (loss) for the period	\$ 360,629	\$ (85,061)
Adjusted for items not requiring cash:		
Amortization	4,329	21,327
Change in non-cash working capital balances related to operations		
Increase in accounts receivable	(219,339)	(12,595)
Decrease in prepaid expense	1,212	-
Increase (decrease) in accounts payable and accrued liabilities	(18,833)	31,290
Increase in deferred revenue	6,328	-
Net cash flows provided by (used in) operating activities	<u>134,326</u>	<u>(45,039)</u>
Cash flows (used in) financing activities		
Bank loan funds received	-	45,000
Due to related parties	(54,250)	-
Payment on capital lease obligation	(6,746)	(6,252)
Net cash flows (used in) provided by financing activities	<u>(60,996)</u>	<u>38,748</u>
Net cash decrease in cash and cash equivalents	73,330	(6,291)
Cash and cash equivalents		
- Beginning of Year	<u>697,998</u>	<u>52,095</u>
Cash and cash equivalents		
- End of Period	<u>\$ 771,328</u>	<u>\$ 45,804</u>

JEMTEC INC.
Notes to Financial Statements
October 31, 2004 and 2003

1. Nature of Operations

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

2. Change In Accounting Policy

During the year ended July 31, 2003, the Company adopted, on a prospective basis, the provisions of new Section 3870 "Stock-Based Compensation and Other Stock Based Payments" of the Canadian Institute of Chartered Accountants ("CICA") Handbook ("Section 3870").

Prior to August 1, 2003, the Company elected not to adopt the fair value method for stock-based compensation granted to employees and directors and to continue using the intrinsic value method. As a result, no compensation expense was recognized if the exercise price of the stock options at the date of grant was equal to market value. Grants of stock options to non-employees and direct awards of stock to employees and non-employees must be accounted for using the fair value method of accounting. The additional disclosure required by Section 3870 as a result of the Company not adopting the fair value method is provided in note 4(c).

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 Section 3870. All option grant beginning August 1, 2003 will be accounted for using the fair value based method, and stock based compensation expense will be 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.

JEMTEC INC.
Notes to Financial Statements
October 31, 2004 and 2003

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 October 31, 2004 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 October 31, 2004, 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

A summary of the status of the Company's fixed stock option plan as of October 31, 2004, 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 October 31, 2004	350,000	\$0.26

JEMTEC INC.
Notes to Financial Statements
October 31, 2004 and 2003

4. Share capital, continued

c) Options continued:

The following table summarizes information about fixed stock options outstanding at October 31, 2004:

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	2.28 years	\$0.26	308,333	\$0.26