

JEMTEC INC.

MANAGEMENT DISCUSSION & ANALYSIS

FORM 51-102F1

For the Period Ending October 31, 2004

The following discussion and analysis of financial condition and results of operations should be read in conjunction with the Company's Management's Discussion and Analysis of Operating Results, the unaudited interim financial statements and the accompanying notes for the three month period ended October 31, 2004 and the audited financial statements for the year ended July 31, 2004.

The following discussion and analysis should be read in conjunction with the selected financial and operating information and the audited and unaudited consolidated financial statements and the accompanying notes appearing elsewhere in this document. Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected.

DATE OF REPORT: December 2, 2004

OVERALL PERFORMANCE

Jemtec Inc. ("the Company") 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 sales and leasing of electronic monitoring equipment to Canadian provincial and federal government 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 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.

Also, 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 2004 and 2003 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.

Revenue

Revenue is generated primarily from leasing, monitoring and activation services. The Company generates the remainder of its revenues from parts, sales and other.

The Company obtains all of its revenue from two customers of which one customer contributed approximately 93% of revenue for the three months ended October 31, 2004. These contracts are reviewed periodically and the non-renewal of these contracts could have a material adverse impact on the Company.

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.

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, includes personnel and related costs associated with the Company's administrative and finance functions, salaries, consulting, professional fees, office rent and other corporate related expenses.

SELECTED ANNUAL INFORMATION

The following financial data, which has been prepared in accordance with Canadian generally accepted accounting principles, is derived from the Company's audited financial statements for the year ended July 31, 2004, 2003 and 2002.

	2004	2003	2002
	\$	\$	\$
Total Revenues	1,624,545	451,444	778,745
Net earnings (loss) for the period	414,117	(193,095)	164,798
Basic and diluted per shares	0.019	(0.09)	0.08
Total Assets	1,056,096	437,555	683,070
Total long term liabilities	Nil	Nil	Nil
Cash dividend	Nil	Nil	Nil

The consolidated financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles. In the preparation of these consolidated financial statements, management has made estimates and assumption that affect the recorded amounts of certain of the Company's assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. While it is the opinion of management that these consolidated financial statements have been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below, actual results could differ from the estimates made.

RESULTS OF OPERATIONS

Revenue

For the three months period ended October 31, 2004, revenue increased to \$630,647 from \$136,770 for the same period last year, an increase of \$493,877 or 361%. Revenue from leasing, monitoring and activation for the three months ended October 31 increased to \$628,976 from \$136,127 in 2003, an increase of 362%. The increase in revenue in leasing, monitoring and activation services for the first three months is attributable to the monitoring services marketed to customers across Canada. Revenue from parts, sales and other in the three months ended October 31, 2004, increased to \$1,671 from \$643 in 2003, an increase of 160%.

Net Earning (Loss) from Continuing Operations

Net earnings (loss) from continuing operations was \$360,629 compared to a loss of \$(85,061) in the first quarter 2003, an increase of \$445,690. This significant improvement is attributable primarily to increased leasing, monitoring and activation services in the first quarter of 2004.

Operating Expenses

For the three months period ended October 31, 2004, expenses increased by 22% to \$270,018 from \$221,831. Operating expenses consists of salaries and benefits of \$56,944 (2003-\$38,024) increased by \$18,820 due to a one-time bonus payment. Monitoring and activation fees of \$77,019 (2003-\$76,246), equipment rent and installation of \$20,320 (2003-\$20,062) and repairs and maintenance costs of \$32,752 (2003-\$2,181). The increase in repair and maintenance is due to the 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.

Office expenses of \$22,723 (2003-\$16,402) increased by \$6,321 due to the increase of telecommunications services to service our growing client base. Travel expenses of \$12,212 (2003-\$3,855) increased for the three months period ended October 31, 2004 as a result of the Company spending more on travel.

Amortization decreased to \$4,329 (2003-\$21,327), a decrease of \$16,908, due to the fact that certain equipment, which are still in use, became fully amortized.

During the period ended October 31, 2004, the Company incurred similar levels of expenses for salaries of professional fees of \$1,950 (2003-\$2,865) consulting fees of \$28,036 (2003-\$30,535), interest on capital leases of \$672 (2003-(\$1,165) and shareholder communications of \$1,395 (2003-\$1,268). The Company paid a private company \$6,000 (2003-\$7,300) for accounting and general administrative services.

SUMMARY OF QUARTERLY REPORTS

Results for the eight most recent quarters ending with the last quarter for the three months period ended October 31:

	Three Months Ended			
	October 31,	July 31,	April,	January 31,
	2004	2004	2004	2004
	\$	\$	\$	\$
Revenue	630,647	836,549	435,104	216,122
Net earnings (loss)	360,629	305,020	213,538	(19,380)
Basic and diluted per shares	0.17	0.15	0.11	(0.01)

	Three Months Ended			
	October 31,	July 31,	April 30,	January 31,
	2003	2003	2003	2003
	\$	\$	\$	\$
Revenue	136,770	110,801	126,586	107,582
Net earnings (loss)	(85,061)	55,065	(112,137)	(144,906)
Basic and diluted per shares	(0.01)	0.03	(0.05)	(0.07)

Significant changes in key financial data can be attributed to the development of monitoring services in Canada.

LIQUIDITY AND CAPITAL RESOURCES

During the three month period ended October 31, 2004, the company had cash and cash equivalents of \$771,328 compared to \$697,998 as of July 31, 2004, an increase of \$73,330. The Company has a working capital of \$932,770 as of October 31, 2004 compared to working capital of \$574,695 at July 31, 2004. During the three months ended October 31, 2004, the Company experienced an operating cash inflow of \$134,326, compared to the three month period ended October 31, 2003 where the Company experienced an operating cash outflow of \$45,039. Cash used by operating activities during the three months ended October 31, 2004 included a net earnings of \$360,629 combined with non-cash charges to amortization of \$4,329. Operating activities that provided cash were an increase in accounts receivable of \$219,339, a decrease in prepaid expense of \$1,212, an increase in deferred revenue of \$6,328, a reduction in accounts payable and accrued liabilities of \$18,833. Higher operating cash inflow for the three month period ended October 31, 2004 are a result of higher revenue generated during the period.

Financing Activities

The Company's financing activities during the quarter ended October 31, 2004 included payment on capital lease obligation of \$6,746. The Company paid directors \$54,250 bonus and compensation in cash generated from financing activities in the amount of \$60,996.

Capital Lease Obligation

Payment due in less than 1 year	20,866
Payment due in 1-3 years	<u>9,889</u>
Total capital lease obligation	<u>\$ 30,755</u>

Management is not aware of any trends or expected fluctuations in its liquidity that would create any deficiencies. In addition, 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. However, the Company derives a significant portion of its revenue one customer who contributed approximately 93% of revenue for the three months ended October 31, 2004. See Note

8 to the Company's year end audited consolidated financial statements. 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.

Bank credit facility and loan agreement

The Company has arranged an uncommitted term operating loan which is available to a maximum amount of \$75,000. The loan is due on demand and bears interest at bank prime plus 1.3% per annum. The loan is secured by a general security agreement over all of the assets of the Company.

Risk Factor

The reader should consider each of the following factors as well as the other information contained in this report in evaluating the company's business and future prospects. The risks and uncertainties described below are not the only ones the company's is faced with. Additional risks and uncertainties not presently known may also impair the company's business operations. If any of the following risks occur, the company's business and financial results could be harmed. The reader should also refer to the other information set forth in this report, including the company's interim financial statements and the accompanying notes.

- Intense competition from other vendors
- Ability to raise capital
- Management of distribution channels and marketing agreements
- Dependence on strategic relationships with manufactures
- Government Agencies, Companies main purchasers, slow to move

CRITICAL ACCOUNTING ESTIMATES

The Company's financial statements for the three months ended October 31, 2004 have been prepared according to Canadian generally accepted accounting principles. Reference should be made to Note 3 Significant Accounting Policies in the notes to the Company's annual financial statements for the year ended July 31, 2004 for more information concerning the accounting principles used in the preparation of the Company's financial statements.

Management is required to make estimates and assumptions when accounting for and reporting assets, liabilities, revenues and expenses and disclosing contingent assets and liabilities in the financial statements. Given the use of estimates inherent in the financial reporting process, actual results could differ from those estimates.

CHANGES IN ACCOUNTING POLICIES INCLUDING INITIAL ADOPTION

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 is recognized if the exercise price of the stock options at the date of grant is 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. Consideration paid for shares on exercise of stock options is credited to share capital.

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")

FINANCIAL INSTRUMENTS

The Company's financial instruments recognized in the balance sheet consist of cash and short-term deposits, accounts receivable, accounts payable and accrued liabilities, due to related parties, income taxes payable, and capital lease obligations. The fair values of these instruments approximates their carrying value due to their short-term maturity or, in the case of the capital lease obligation, the rate implicit in the lease arrangements.

INVESTOR RELATIONS

No investor relations activities were undertaken by or on behalf of the Company during the period.

OUTSTANDING SHARES

As at October 31, 2004, the Company had the following securities issued and outstanding:

Common shares 2,071,659
Stock options 350,000
Fully Diluted 2,421,659

Option granted for the three months ended October 31, 2004:

Date of Grant	Number	Name	Exercise Price	Expiry Date
September 21, 2004	50,000	Morriz Zbar	\$0.30	September 21, 2009
TOTAL	50,000			

DIRECTORS AND OFFICERS

Eric Caton *Director, President & Chief Executive Officer*
Jeremy Kendall *Director, Chairman of the Board*
Leslie Markow *Director, Corporate Secretary*
Cyril Ing, *Director*
Gordon Baker, *Director*
Morris Zbar, *Director*

OTHER REQUIREMENTS

Additional disclosure of the Company's technical reports, material change reports, news release and other information can be obtained on SEDAR.

On Behalf of the Board,

JEMTEC INC.

"Eric Caton"

Eric Caton
President & CEO