



British Columbia Securities Commission

**QUARTERLY AND YEAR END
REPORT**
BC FORM 51-901F
(previously Form 61)

INCORPORATED AS PART: **Schedule A**

Schedule B and C

ISSUER DETAILS		FOR QUARTER ENDED		DATE OF REPORT		
NAME OF ISSUER				Y	M	D
JEMTEC INC.		July 31, 2004		04	12	02
ISSUER ADDRESS						
#200-38 FELL AVENUE						
CITY	PROVINCE	POSTAL CODE	ISSUER FAX NO.	ISSUER TELEPHONE NO.		
NORTH VANCOUVER	BC	V7P 3S2	604-929-4198	604-929-4559		
CONTACT PERSON		CONTACT'S POSITION		CONTACT TELEPHONE NO.		
ERIC CATON		DIRECTOR		604-929-4559		
CONTACT EMAIL ADDRESS		WEB SITE ADDRESS				
info@jemtec.ca		jemtec.ca				

CERTIFICATE

The three schedules required to complete this Report are attached and the disclosure contained therein has been approved by the Board of Directors. A copy of this Report will be provided to any shareholder who requests it.

DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
		Y	M	D
"ERIC CATON"	ERIC CATON	04	12	02
DIRECTOR'S SIGNATURE	PRINT FULL NAME	DATE SIGNED		
		Y	M	D
"LESLIE MARKOW"	LESLIE MARKOW	04	12	02

JEMTEC INC.

FINANCIAL STATEMENTS

JULY 31, 2004 and 2003

AUDITORS' REPORT

To the Shareholders of
Jemtec Inc.

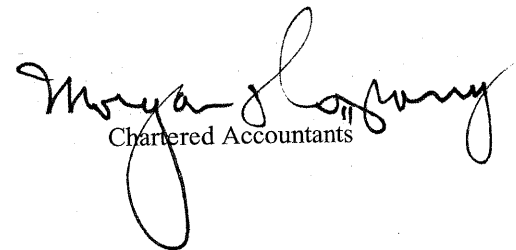
We have audited the balance sheets of Jemtec Inc. as at July 31, 2004 and 2003, and the statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, B.C.

October 7, 2004



Chartered Accountants

JEMTEC INC.
Statements of Operations and Deficit
For the Years Ended July 31,

	2004	2003
Revenue (note 8)		
Leasing, monitoring and activation	\$ 1,620,949	\$ 397,393
Parts, sales and other	3,596	54,051
	<u>1,624,545</u>	<u>451,444</u>
Expenses		
Salaries and benefits	184,974	158,152
Amortization	55,501	82,393
Repairs and maintenance	18,912	50,949
Monitoring and activation fees	348,511	175,579
Equipment rent and installation	77,138	96,676
Training	-	21,545
Consulting fees	115,705	117,321
Travel	32,239	38,834
Shareholder communications	19,804	20,372
Professional fees	18,986	20,993
Office	72,511	50,149
Interest on capital leases	3,673	5,279
Other interest expense	3,383	966
Directors' fees	26,250	-
Accounting and administrative fees	25,300	25,500
	<u>1,002,887</u>	<u>864,708</u>
Earnings (Loss) from Operations	621,658	(413,264)
Write-down of marketable securities	-	(1,154)
Gain on extinguishment of convertible note payable	-	84,373
Gain on disposal of assets	-	36,653
Other	-	5,373
	<u>621,658</u>	<u>(288,019)</u>
Net Earnings (Loss) for the Year before Income Taxes	621,658	(288,019)
Recovery of (Provision for) Income Taxes (Note 10)		
Current	(103,483)	22,472
Future	(104,058)	72,452
	<u>(207,541)</u>	<u>94,924</u>
Net Earnings (Loss) for the Year	414,117	(193,095)
Deficit - Beginning of Year	(850,774)	(657,679)
Deficit - End of Year	\$ (436,657)	\$ (850,774)
Earnings (loss) per share		
Basic	\$ 0.20	\$ (0.09)
Diluted	\$ 0.19	\$ (0.09)
Weighted average number of common shares outstanding		
Basic	2,071,659	2,071,659
Diluted	2,200,826	2,071,659

See Accompanying Notes to Financial Statements

JEMTEC INC.
Statement of Cash Flows
For the Years Ended July 31,

	2004	2003
Cash flows from (used in) operating activities:		
Net earnings (loss) for the year	\$ 414,117	\$ (193,095)
Adjusted for items not requiring cash:		
Amortization	55,501	82,393
Write-down of marketable securities	-	1,154
Write off of convertible note payable	-	(84,373)
Gain on disposal of property, plant and equipment	-	(36,653)
Gain on capital lease buy out	-	(5,373)
Future income taxes	104,058	(72,452)
Change in non-cash working capital balances related to operations		
Increase in accounts receivable	(149,668)	(45,628)
Increase in prepaid expense	(2,712)	-
Increase in accounts payable and accrued liabilities	66,926	75,472
Increase in deferred revenue	10,500	-
Increase in due to related parties	54,250	-
Increase (decrease) in income tax payable	103,483	(22,472)
Increase (decrease) in income tax recoverable	22,472	(22,472)
Net cash flows provided by (used in) operating activities	<u>678,927</u>	<u>(323,499)</u>
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(2,289)	-
Proceeds on disposal of property, plant and equipment	-	36,653
Net cash flows (used in) provided by investing activities	<u>(2,289)</u>	<u>36,653</u>
Cash flows (used in) financing activities		
Bank loan	(5,000)	5,000
Capital lease buy out	-	(23,540)
Payments on capital lease obligation	(25,735)	(47,468)
Net cash flows (used in) financing activities	<u>(30,735)</u>	<u>(66,008)</u>
Net cash increase (decrease) in cash and cash equivalents	645,903	(352,854)
Cash and cash equivalents		
- Beginning of Year	<u>52,095</u>	<u>404,949</u>
Cash and cash equivalents		
- End of Year	<u>\$ 697,998</u>	<u>\$ 52,095</u>

Supplemental disclosure on non-cash financing activity

During the year ended July 31, 2003, the Company entered into a capital lease for monitoring equipment in the amount of \$80,334.

See Accompanying Notes to Financial Statements

JEMTEC INC.
Notes to Financial Statements
July 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 7(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 options to employees, non-employees and directors in accordance with the prospective application provision of amended Section 3870. All option grants 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 option pricing model ("Black-Scholes").

3. Summary of Significant Accounting Policies

Property, plant and equipment

Capital assets are carried at cost. Amortization is provided over the estimated useful lives of the respective assets at the following annual rates:

Furniture & fixtures	- 20% declining balance
Monitoring equipment	- straight-line over 5 years or contract period
Demonstration equipment	- 20% declining balance
Leasehold improvements	- 5 years straight-line

The Company periodically evaluates the recoverability of its property, plant and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss would be recognized when estimates of future cash flows expected to result from the use of an asset and its eventual disposition are less than its carrying amount.

Investments and marketable securities

Short-term marketable securities are carried at the lower of cost and quoted market value.

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.

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

3. Summary of Significant Accounting Policies, continued:

Revenue Recognition, continued:

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.

Use of estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect revenues and expenses during the reporting periods, in addition to the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements. Actual results could differ from those estimates.

Financial instruments

The Company's financial instruments recognized in the balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, bank loan, 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.

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.

Income taxes

The Company uses the asset and liability method of accounting for income taxes whereby future income tax assets are recognized for deductible temporary differences and operating loss carry-forwards, and future income tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the amounts of assets and liabilities recorded for income tax and financial reporting purposes. Future income tax assets are recognized only to the extent that management determines that it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment. The income tax expense or benefit is the income tax payable or refundable for the period plus or minus the change in future income tax assets and liabilities during the period.

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
July 31, 2004 and 2003

3. Summary of Significant Accounting Policies, continued:

Earnings (loss) per share, continued:

During the year ended July 31, 2003, there was no effect on diluted loss per share as the effect of outstanding options and warrants in basic loss per share would be anti-dilutive.

Stock based compensation

The Company's stock based compensation plan is described in Note 7(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. Property, Plant and Equipment

	2004		
	Cost	Accumulated Amortization	Net
Furniture and fixtures	\$ 35,676	\$ 33,500	\$ 2,176
Monitoring equipment	383,623	327,390	56,233
Demonstration equipment	8,653	7,977	676
	\$ 427,952	\$ 368,867	\$ 59,085

	2003		
	Cost	Accumulated Amortization	Net
Furniture and fixtures	\$ 33,386	\$ 30,631	\$ 2,755
Monitoring equipment	383,623	275,432	108,191
Demonstration equipment	8,653	7,302	1,351
Leasehold improvements	9,055	9,055	-
	\$ 434,717	\$ 322,420	\$ 112,297

Included in monitoring equipment are assets under capital lease at a cost of \$80,334 (2003 - \$80,334) and a net book value of \$24,100 (2003-\$72,300)

The Company amortizes its monitoring equipment over its estimated useful life as described in note 3. Such estimates are based on management's experience and expectations of the continued renewal of the contracts for which equipment is acquired or the use of existing equipment in new contracts. Advances in technology and other considerations could result in significant changes to the estimated lives of these assets or otherwise impact the ability of the Company to realize on existing monitoring equipment. In these circumstances, additional provisions could be required.

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

5. Capital lease obligation

Further minimum lease payments to capital leases are as follows:

2005	29,668
2006	9,889
Less: Amounts representing interest (8%)	<u>(2,056)</u>
Present value of minimum lease payments	37,501
Less: Current portion	<u>(27,766)</u>
	<u>\$ 9,735</u>

A general security agreement over all of the assets of the Company has been pledged as security for the capital lease obligations.

6. 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.

7. 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 Common Shares	Amount
Balance July 31, 2004 and 2003	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.

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

7. Share capital continued:

c) Options continued

A summary of the status of the Company's fixed stock option plan as of July 31, 2004 and 2003, and changes during the years then ended, is as follows:

	Options Outstanding	
	Number of Shares	Weighted Average Exercise Price
Balance, July 31, 2002	150,000	\$0.30
Granted	150,000	0.11
Balance, July 31, 2003 and 2004	300,000	\$0.21

The following table summarizes information about fixed stock options outstanding at July 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	300,000	2.09 years	\$0.21	274,998	\$0.21

Prior to August 1, 2003, the Company applied the intrinsic value based method of accounting for stock based compensation granted under the Company's fixed stock option plan to employees, as well as to directors of the Company who received stock based awards for services provided as a director. Had compensation cost been determined based on the fair value at the grant dates for awards under the plan consistent with the fair value based method of accounting for stock based compensation, the Company's net loss and loss per share would have been increased to the pro-forma amounts indicated below. The fair value of each option grant was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions for 2004 and 2003: risk-free interest rates of 3.5%; dividend yield of \$Nil; expected lives of 5 years; and volatility of 120%.

	2004	2003
Net Earnings (Loss)		
As reported	\$ 414,117	\$ (193,095)
Pro-forma	\$ 404,891	\$ (195,401)
Basic Earnings (Loss) Per Share		
As reported	\$ 0.20	\$ (0.09)
Pro-forma	\$ 0.20	\$ (0.09)
Diluted Earnings (Loss) Per Share		
As reported	\$ 0.19	\$ (0.09)
Pro-forma	\$ 0.18	\$ (0.09)

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

8. Economic dependence

The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 88% of revenue in 2004 and 49% in 2003. 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's ("Pro-Tech") and BI Inc.'s (both U.S. companies) 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.

9. Due to related parties

Due to related parties includes \$28,000 (2003 - \$Nil) accrued as payable to the President of the Company (who is also a director) under an incentive bonus agreement. Amounts due to related parties also include \$26,250 (2003 - \$Nil) owing to directors accrued as directors' fees.

10. Income taxes

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	2004	2003
Net earnings (loss) before income taxes	\$ 621,658	\$ (288,019)
Income taxes at Canadian and provincial statutory rates of 37% (2003 – 37%)	227,402	(107,719)
Increase (decrease) by the effects of		
Non-deductible items	1,715	2,636
Effect of change in tax rates	-	(9,988)
Other	(21,576)	20,147
Provision for (recovery of) income taxes	\$ 207,541	\$ (94,924)

Future tax assets of the Company are as follows:

	2004	2003
Excess of book over tax amortization	\$ 52,291	\$ 55,124
Operating losses	-	101,225
	\$ 52,291	\$ 156,349

As at July 31, 2004, the Company believes that it is more likely than not that the excess capital cost allowance pools available of \$142,949 for tax purposes and \$Nil in operating losses carried forward will be utilized in the future. Thus, no valuation allowance has been recorded as at July 31, 2004, and a future tax asset representing the sum of the tax amortization pools over net book values available for application against future taxable income was recorded.

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

11. Subsequent Event

Subsequent to July 31, 2004, the Company announced that it has granted 50,000 incentive stock options, to a director of the Company. The stock options are granted to purchase a common share at an exercise price of \$0.30. The options are for a five year period and shall vest in six equal installments over a period of 18 months. The grant of stock options is being made under the terms of the company's stock option plan.

**JEMTEC INC.
SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JULY 31, 2004**

1. Analysis of expenses and deferred costs

Please refer to the financial statements and accompanying notes for the year ended July 31, 2004 and are attached as Schedule "A" hereto.

2. Related Party Transactions

The company accrued \$28,000 as a bonus and \$26,250 in directors fees at July 31, 2004, which was paid in full in September, 2004.

3. Summary of securities issued and options granted during the period

a) Securities Issued: Nil

b) Option Granted: Nil

4. Summary of securities as at the end of the quarter:

Refer to Note 7 to Financial Statements

5. Directors and Officers:List of directors:

Eric Caton
Leslie Markow
Jeremy Kendall
Cyril Ing
Gordon Baker
Morris Zbar

List of officers:

Eric Caton *President and CEO*
Leslie Markow *Corporate Secretary*
Jeremy Kendall *Chairman of the Board*

**JEMTEC INC.
MANAGEMENT DISCUSSION
FOR THE YEAR ENDED JULY 31, 2004****Description of Business**

Jemtec Inc. 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.

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 months 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.

The Company presently derives substantially all of its revenue from two two customers of which one customer contributed approximately 88% of revenue in 2004 and 49% in 2003. 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.

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.

Discussion of Operations and Financial Condition*Directors Appointed/Changes in Officers*

On March 31, 2004, Morris Zbar was appointed to its Board of Directors. Mr. Zbar who recently retired from the Ontario Correctional Services has over 20 years experience in the correctional field. Mr. Zbar most recent positions with the Ministry of Correctional Services were: Deputy Minister, Assistant Deputy Minister, Director of Operational Review, Audit & Investigation, Director of Field Services, Director of Organization Development, Manager Young Offender Co-ordinator and Manager of Program Development.

On June 2, 2004, Ms. Leslie Markow resigned her position as the Company's part time Vice President Finance due to conditions of her new full time position. Ms. Markow will continue as a Director and the Company's Corporate Secretary.

Due to Related Parties

Due to related parties includes \$28,000 accrued as payable to the President of the Company (who is also a director) under an incentive bonus agreement. Amounts due to related parties also include \$26,250 owing to directors accrued as director's fees.

**JEMTEC INC.
MANAGEMENT DISCUSSION
FOR THE YEAR ENDED JULY 31, 2004****Operations**

Revenue for the year ended July 31, 2004 increased to \$1,624,545 from \$451,444 for the same period last year, an increase of \$1,173,101 or 260%. Revenue from leasing, monitoring and activation for the year ended July 31, 2004 increased to \$1,620,949 from \$397,393 in 2003. The increase in revenue in leasing, monitoring and activation services for the year, is due to the development of our new monitoring services. Revenue from parts, sales and other in the year ended July 31, 2004 decreased to \$3,596 from \$54,051 in 2003. The decrease in revenue of parts, sales and other is due to the expiring of older lease contracts.

The Company reported a net earnings after provision for income taxes of \$414,117 or \$0.19 basic earnings per share for the year ended July 31, 2004 compared to net loss after provision for income taxes of (\$193,093) or (\$0.09) basic earnings per share for the same period last year.

Operating expenses for the year ended July 31, 2004 increased by 16% to \$1,002,887 from \$864,708. This increase is primarily due to the additional clients added during the period. Expenses for the year ended include monitoring and installation fees of \$348,511 (2003-\$175,579), equipment rent and installation of \$77,138 (2003-\$96,676) and repairs and maintenance costs of \$18,912 (2003-\$50,949).). The decrease in repairs and maintenance is due to the expiring of the older lease contract. The increase in monitoring and activation fees, were directly related to the new electronic monitoring services.

Repair and maintenance expenses are comprised of repairs and maintenance of monitoring equipment, freight and delivery of monitoring parts and monitoring, 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 installation 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 \$72,511 (2003-\$50,149) increased by \$22,362 due to the increase of telecommunications expenses as the company expands the monitoring services across Canada. Professional fees of \$18,986 (2003-\$20,993) and travel expenses of \$32,239 (2003-\$38,834) decreased for the year ended July 31, 2004 as a result of the Company spending less on travel and legal expenses in 2004 compared to 2003 as the company had completed development needed to market it's new monitoring services across Canada.

Salaries of \$184,974 (2003-\$158,152) and directors' fees of \$26,250 (2003-Nil) increased as the Corporation paid a bonus to the President and accrued directors fees to the directors of the Corporation.

During the year ended July 31, 2004, the Company incurred similar levels of expenses for consulting fees of \$115,705 (2003-\$117,321), amortization of \$55,501 (2003-\$82,393), interest on capital leases of \$3,673 (2003-(\$5,279) and shareholder communications of \$19,804 (2003-\$20,372). The Company paid a private company \$25,300 (2003-\$25,500) for accounting and general administrative services.

Cash Flows

Cash provided by operating activities was \$678,927 for the year July 31, 2004 compared to cash used of (\$323,499) in 2003. The increase in cash used for operations is principally due to a \$607,212 increase in earnings as well as the increase in future income taxes payable and accounts payable.

**JEMTEC INC.
MANAGEMENT DISCUSSION
FOR THE YEAR ENDED JULY 31, 2004**

Cash used in investing activities for the year ended July 31, 2004 was (\$2,289) compared to cash provided of \$36,653 in 2003. The decrease in cash provided by investing activities is principally due to the proceeds of sale of equipment that occurred in 2003 and not in 2004.

Cash used in financing activities for the year ended July 31, 2004 was \$30,735 (2003 (\$66,008)). The decrease in cash used in financing activities is principally due to the decreased of payment on capital lease obligation and lease buyout in 2004 over 2003.

Balance Sheet

The company has improved its capital working capital from \$33,294 to \$574,695 due to cash generated from the business in 2004. Cash balances not need for operations are invested in short term deposits. The amount due to related parties at July 31, 2004 was paid in full in September 2004.

Investor relations

During the period ended July 31, 2004, inquiries from investors and shareholders, were directly responded to by Company officers, directors and staff. No fees were paid to third parties for investor relations.

Liquidity and Solvency

Please refer to the financial statements and accompanying notes for the year ended July 31, 2004 which have been filed on SEDAR and are attached as Schedule "A" hereto.

	July 31, 2004	July 31, 2003
Deficit	\$ (436,657)	\$ (850,774)
Working Capital (Deficiency)	\$ 574,695	\$ 33,294

The Company has adequate cash balance to carry out its business for the next fiscal year.

Risk Factor

In the normal course of business, Jemtec Inc. is exposed to a number of risks that can affect its performance. The Company's operating results are reported in Canadian dollars. All of the Company's revenues are generated in Canadian dollars and major expenses are generated in U.S. dollars. The exchange rate risk, on an annual basis, primarily reflects the impact of fluctuating exchange rates on the net difference between the revenues and expenses.