

**JEMTEC INC.**

**Management Discussion and Analysis**

**July 31, 2006**

***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, 2006. 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, 2006.***

***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 15, 2006**

This management discussion and analysis, dated November 15, 2006, is to accompany the financial statements of the Company for the fiscal year ended July 31, 2006.

**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 a Canadian distributor of Pro-Tech Monitoring, Inc.’s. and the exclusive Canadian distributor of BI Inc.’s offender monitoring and tracking devices, the sales and leasing of which account for substantially all of the Company’s 2006 and 2005 revenues, capital asset additions and replacement parts purchased. The Company is economically dependent on Pro-Tech Monitoring Inc. and BI Inc. for the continued supply of monitoring equipment, replacement parts, and maintenance services 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 July 31,		
	2006	2005	2004
Revenue	\$ 2,701,497	\$ 2,600,312	\$ 1,624,545
Expenses	1,833,223	1,465,699	1,002,887
Net income before income taxes	868,274	1,134,613	621,658
Income tax expense	375,076	420,088	207,541
Net income for the period	<u>\$ 493,198</u>	<u>\$ 714,525</u>	<u>\$ 414,117</u>
Earnings per share			
Basic	<u>\$ 0.21</u>	<u>\$ 0.33</u>	<u>\$ 0.20</u>
Diluted	<u>\$ 0.20</u>	<u>\$ 0.32</u>	<u>\$ 0.19</u>

**Item 4 and 5. Results of Operations, Quarterly Results**

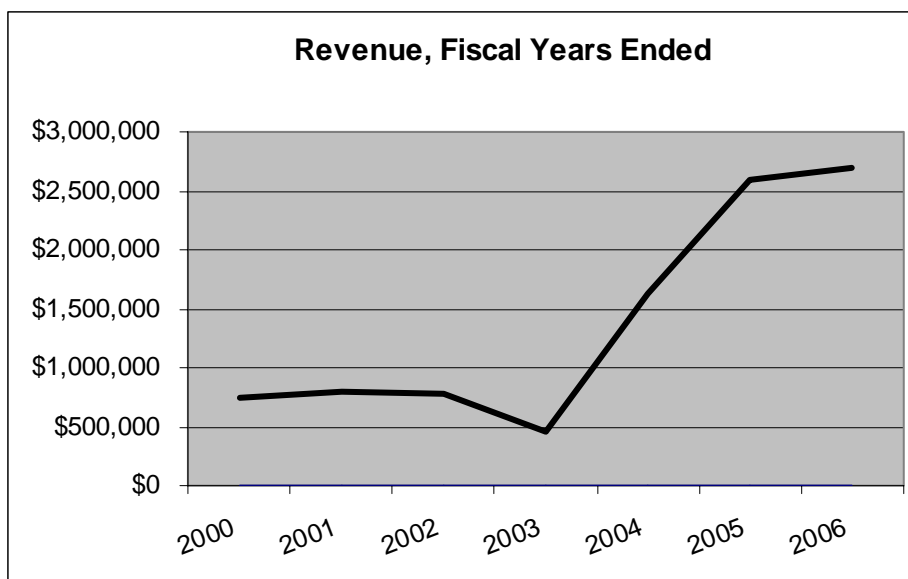
The audited financial statements for the years ended July 31, 2006 and 2005 summarize the financial impact of our financings, investments and operations while providing significant material information that is not meant to be, nor is it, included in this discussion. This discussion is meant to provide information not included in the financial statements and an explanation of some of the financial statement information.

	Quarters Ended							
	July 31 2006	April 30 2006	January 31 2006	October 31 2005	July 31 2005	April 30 2005	January 31 2005	October 31 2004
Revenue	\$ 691,808	\$ 671,740	\$ 669,970	\$ 667,979	\$ 685,048	\$ 647,895	\$ 636,722	\$ 630,647
Expenses	396,656	515,978	493,162	427,427	514,187	368,893	312,601	270,018
Net income before taxes	<u>\$ 295,152</u>	<u>\$ 155,762</u>	<u>\$ 176,808</u>	<u>\$ 240,552</u>	<u>\$ 170,861</u>	<u>\$ 279,002</u>	<u>\$ 324,121</u>	<u>\$ 360,629</u>
Provision for taxes	158,682	56,799	68,961	90,634	73,127	100,451	246,510	-
<b>Net income</b>	<u><u>\$ 136,470</u></u>	<u><u>\$ 98,963</u></u>	<u><u>\$ 107,847</u></u>	<u><u>\$ 149,918</u></u>	<u><u>\$ 97,734</u></u>	<u><u>\$ 178,551</u></u>	<u><u>\$ 77,611</u></u>	<u><u>\$ 360,629</u></u>
Basic earnings (loss) per share	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.04</u>	<u>\$ 0.17</u>

Quarter to quarter, revenues have been steadily increasing, to the exception of a slight variation in the trend for the quarter ended July 31, 2005. Expenses as a percentage of revenues have increased from year to year, but the Company does not believe this trend will continue, as a significant portion of the increased expenses can be attributed to non-recurring expenditures such as professional fees incurred in relation to the consolidation of capital and stock based compensation charges.

### Revenues

During the fiscal year ended July 31, 2006, the Company continued to earn revenue on its main contracts, but also on its private bail project. Overall revenues have increased by 4%, with leasing and monitoring revenues accounting for 41% of this increase, interest income accounting for another 41% and bail revenues accounting for the remaining 18% of the overall increase in revenues.



The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 90% of revenue in 2006 and 93% in 2005. 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.

	Fiscal Years Ended July 31,		
	2006	2005	2004
<b>Revenue</b>			
Leasing, monitoring and activation	\$ 2,645,686	\$ 2,582,349	\$ 1,620,949
Parts, sales and other	-	3,728	3,596
Interest income	55,811	14,235	-
<b>Total revenue</b>	<b>\$ 2,701,497</b>	<b>\$ 2,600,312</b>	<b>\$ 1,624,545</b>

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

While leasing and operating revenues grew by 2%, the Company's expenses for the fiscal year ended July 31, 2006 increased by 25% as compared to 2005. However, included in expenses are costs associated with the Company's administrative and finance functions which were not incurred in 2005. The key increases in these expenses consist of a stock based compensation expense of \$170,218 (2005 - \$65,067) which results from the Company expensing options granted in the year ended July 31, 2005 which are vesting over a period of 18 months, and increases of \$83,600 in 2006 as compared to 2005 for professional fees and shareholder communication costs associated with the consolidation / deconsolidation of the Company's shares. The Company does not expect to incur these type of expenses during its fiscal year ended July 31, 2007.

Key operational items that increased the expenses for the fiscal year were monitoring and activation fees, which increased \$138,014 over the previous comparable period, and equipment rent and installation, which increased \$75,180 over the previous comparable period. The increasing costs of monitoring and activation fees along with equipment rent and installation, which represents 58% of the increased expenses for the fiscal year ended July 31, 2006 compared to 2005, is related to an increase in the overall number of clients monitored as well as an increase in the number of clients monitored on the more expensive radio frequency technology versus the less costly voice verification technology in the previous period. These increased expenses relate to contract commitments within the Company's agreements with its customers, and similar increases in these expenses may continue in fiscal 2007 and in the first two quarters of fiscal 2008.

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.

### Net earnings

For the year ended July 31, 2006 net income was \$493,198 compared to \$714,525 in 2005. As detailed above, this reduction in net earning is attributable primarily to the increased direct operating costs, incremental professional costs incurred in relation to the consolidation as well as the stock based compensation expenses.

Category	Changes – Fiscal 2006 Compared to 2005
Salaries and benefits	Decrease: Lower bonus awarded to an officer/director of the Company.
Amortization	Increase: Additional equipment related to the Ontario and Saskatchewan projects being depreciated
Repairs and maintenance	Decrease: In 2005, costs were higher due to the renewal of a 5 year 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 strategic corporate development program was initiated
Shareholder communications	Increase: Additional costs incurred in relation to special meeting of shareholders held in April.
Office	Increase: Additional telecommunication services required to service our growing client base.
Interest on capital leases	Decrease: One lease was paid in full.
Stock-based compensation	Increase: 330,000 options were granted in the last quarter of fiscal 2005, vesting over a period of 18 months.
Directors' fees	Decrease: Lower incentive bonus granted to directors in 2006.

During the year ended July 31, 2006 as compared to 2005, the Company incurred similar level of expenses for travel.

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

During the year ended July 31, 2005, the Company leased and acquired property and equipment to enable the Company to provide the services of a five year monitoring contract in the Province of Saskatchewan. Accordingly, the Company entered into capital leases to finance the acquisition of some new equipment for the Saskatchewan contract. During the fiscal year ended July 31, 2006, the Company paid \$90,645 in principal and interest towards this lease.

During the fiscal year ended July 31, 2006, the Company also paid \$9,888 towards another lease for monitoring equipment. As at July 31, 2006, this lease has been paid in full and the Company has acquired the equipment for the buy out value of \$1.

#### Liquidity

At July 31, 2006, the Company had cash of \$2,109,097 and a working capital of \$1,973,388.

Financial Position	As at July 31		
	2006	2005	2004
Current assets	\$ 2,603,772	\$ 2,174,549	\$ 944,720
Property and equipment	281,322	365,122	59,085
Other assets	34,258	41,947	52,291
Total assets	<u>\$ 2,919,352</u>	<u>\$ 2,581,618</u>	<u>\$ 1,056,096</u>
Current liabilities	\$ 630,384	\$ 793,056	\$ 370,025
Capital lease obligation	163,815	238,922	9,735
Total liabilities	<u>\$ 794,199</u>	<u>\$ 1,031,978</u>	<u>\$ 379,760</u>
Stockholders' equity	<u>\$ 2,125,153</u>	<u>\$ 1,549,640</u>	<u>\$ 676,336</u>
Working capital	<u>\$ 1,973,388</u>	<u>\$ 1,381,493</u>	<u>\$ 574,695</u>

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. The Company has reduced its current liabilities by remitting the taxes payable for fiscal year ended July 31, 2005, and remitting taxes accrued for 2006.

Unearned revenues will continue to fluctuate in relation to the Company earning revenue on its private bail project. These clients typically pay in advance for one or more years monitoring.

The Company's operating cash flows were a surplus of \$506,895 during the year ended July 31, 2006, as compared to \$998,632 in 2005. The decrease in cash flows from operations is mainly due to the payment of corporate taxes and to the charge in stock based compensation expenses related to the granting of stock option in late fiscal 2005.

During the year, no options (2005 - 284,284, for \$93,712) were exercised. The Company financing activities consisted of \$ 80,412 (2005 - \$90,586) related to payments on capital lease obligations.

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 its cash balances and its 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 90% of revenue for the fiscal year ended July 31, 2006 (2005 – 93%). Please refer to note 8 of the Company's audited financial statements for the period ended July 31, 2006. A decision by this customer to discontinue, in whole or in part, use of the Company's services in the future would 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. Transactions with Related Parties**

At July 31, 2006, \$1,600 (2005 - \$0) is due to a director. During the year ended July 31, 2006, \$1,600 (2005 - \$47,250) was accrued or paid to a director who is the President of the Company under an incentive bonus plan in addition to salaries and benefits paid to the president as management compensation in the normal course of operations.

During the year ended July 31, 2006, \$19,382 (2005 - \$Nil) was paid to an officer of the Company for accounting fees.

During the year ended July 31, 2006, \$53,500 (2005 - \$117,068) was paid to the directors of the Company as directors fees.

**Item 10. Fourth Quarter****JEMTEC INC.****Statements of Operations and Retained Earnings  
For the Fourth Quarters ended July 31,**

	2006	2005
<b>Revenue</b>		
Leasing, monitoring and activation	\$ 671,910	\$ 675,481
Parts, sales and other	-	1,668
Interest income	19,898	7,899
	<u>691,808</u>	<u>685,048</u>
<b>Expenses</b>		
Salaries and benefits	57,806	61,497
Amortization	44,352	19,991
Repairs and maintenance	7,091	14,117
Monitoring and activation fees	94,560	128,782
Equipment rent and installation	73,447	65,737
Consulting fees	28,000	39,386
Travel	3,869	8,547
Shareholder communications	20,579	3,776
Professional fees	11,625	5,200
Office	38,779	24,173
Interest on capital leases	4,528	7,453
Other interest expenses	-	17
Stock-based compensation	-	46,693
Directors' fees	11,500	84,318
Accounting and administrative fees	520	4,500
	<u>396,656</u>	<u>514,187</u>
<b>Income before income taxes</b>	<u>295,152</u>	<u>170,861</u>
<b>Income tax expense</b>		
Current	158,751	62,783
Future	(69)	10,344
	<u>158,682</u>	<u>73,127</u>
<b>Net income for the period</b>	<u>136,470</u>	<u>97,734</u>
<b>Retained earnings (deficit) - Beginning of period</b>	581,130	180,134
<b>Retained earnings (deficit)</b>	<u>(2,527)</u>	<u>-</u>
<b>Retained earnings - End of period</b>	<u>\$ 715,073</u>	<u>\$ 277,868</u>

**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, 2006 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, 2006, the Company had cash balances that exceeded the federally insured limits by \$2,007,513. All of these funds are on deposit with a Schedule A bank in Canada.

**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 15, 2006:

Common shares	2,295,736
Shares issuable on the exercise of outstanding stock options	345,716
Shares available for future stock option grants	125,472

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 471,188.

Pursuant to a special resolution passed by shareholders on April 21, 2006, the Company consolidated its capital on a 100 old shares for 1 new share, subsequently followed by a 1 for 100 share split. Shareholders holding less than 100 pre-consolidation shares are entitled to receive a cash payment of \$1.46 per share. Accordingly, at April 30, 2006, 60,207 shares were cancelled, a charge of \$55,993 was made to retained earnings, share capital was reduced by the paid up capital of the common shares on the day of the transaction of \$31,910 and \$87,903 was accrued for shareholders entitled to redeem their shares under this agreement. At July 31, 2006, \$79,180 remains in accounts payable and accrued liabilities for the shareholders who have yet to contact the Company regarding this transaction.

**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, 2006 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](http://www.sedar.com) and on the Company's website at [www.JEMTEC.ca](http://www.JEMTEC.ca)