

**JEMTEC INC.**

**Management Discussion and Analysis**

**October 31, 2006**

*This Management Discussion and Analysis of JEMTEC Inc. ("JEMTEC" or the "Company") provides analysis of JEMTEC's financial results for the fiscal quarter ended October 31, 2006. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements as at October 31, 2006. This discussion is meant to be an update of the Management Discussion and Analysis for the fiscal year ended July 31, 2006, dated November 15, 2006 and does not necessarily repeat information that has not significantly changed since the audited Annual Financial Statements were issued.*

**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: December 21, 2006**

This management discussion and analysis, dated December 21, 2006, is to accompany the financial statements of the Company for the fiscal quarter ended October 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.

	Quarters Ended October 31,		
	2006	2005	2004
Revenue	\$ 700,496	\$ 667,679	\$ 630,647
Expenses	460,030	427,427	270,018
Net income before income taxes	240,466	240,252	360,629
Income tax expense	110,561	90,634	-
Net income for the period	\$ 129,905	\$ 149,618	\$ 360,629
Earnings per share			
Basic	\$ 0.06	\$ 0.06	\$ 0.17
Diluted	\$ 0.05	\$ 0.06	\$ 0.17

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

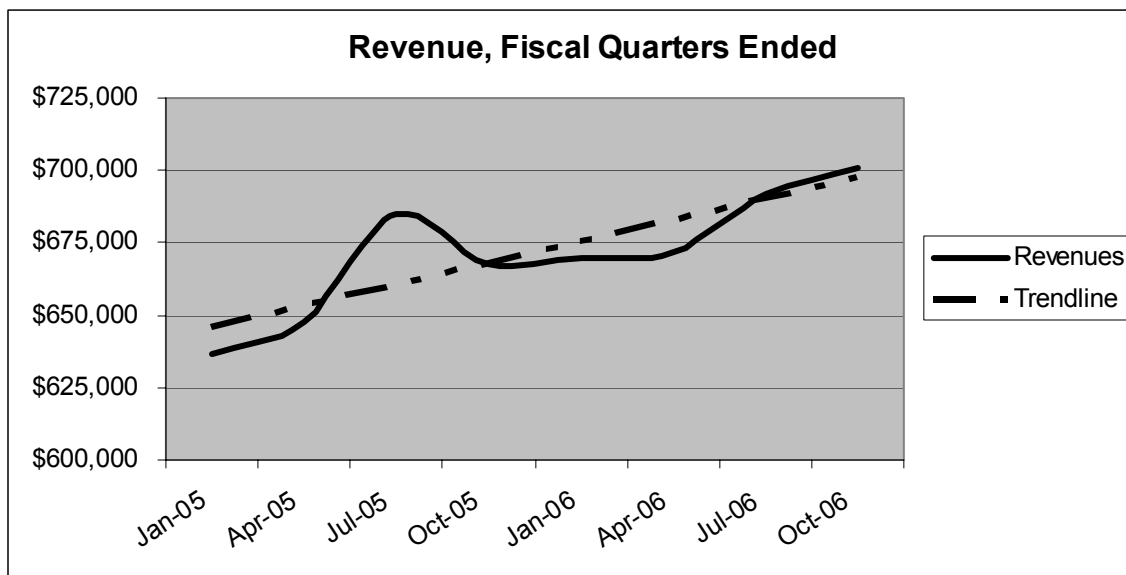
The unaudited financial statements for the fiscal quarters ended October 31, 2006 and 2005 summarize the financial impact of our financings, investments and operations while providing significant material information that is not meant to be, nor is it, included in this discussion. This discussion is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

	Quarters Ended							
	October 31 2006	July 31 2006	April 30 2006	January 31 2006	October 31 2005	July 31 2005	April 30 2005	January 31 2005
Revenue	\$ 700,496	\$ 691,808	\$ 671,740	\$ 669,970	\$ 667,979	\$ 685,048	\$ 647,895	\$ 636,722
Expenses	460,030	396,656	515,978	493,162	427,427	514,187	368,893	312,601
Net income before taxes	\$ 240,466	\$ 295,152	\$ 155,762	\$ 176,808	\$ 240,552	\$ 170,861	\$ 279,002	\$ 324,121
Provision for taxes	110,561	158,682	56,799	68,961	90,634	73,127	100,451	246,510
<b>Net income</b>	<b>\$ 129,905</b>	<b>\$ 136,470</b>	<b>\$ 98,963</b>	<b>\$ 107,847</b>	<b>\$ 149,918</b>	<b>\$ 97,734</b>	<b>\$ 178,551</b>	<b>\$ 77,611</b>
Basic earnings (loss) per share	\$ 0.06	\$ 0.06	\$ 0.04	\$ 0.05	\$ 0.06	\$ 0.04	\$ 0.08	\$ 0.04

Quarter to quarter, revenues have generally been increasing. Expenses as a percentage of revenues have increased from quarter to quarter, but the Company believes this trend will be moderated, as a significant portion of the increased expenses in recent quarters 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 quarter ended October 31, 2006, the Company continued to earn revenue on its main contracts, but also on private bail project. Revenues have increased by 5% as compared to the quarter ended October 31, 2005, with bail revenues representing 31% of this increase.



The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 89% of revenue in 2006 and 92% 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 Quarters Ended October 31,		
	2006	2005	2004
<b>Revenue</b>			
Leasing, monitoring and activation	\$ 665,492	\$ 656,762	\$ 626,676
Bail	20,548	10,592	2,300
Other	-	-	1,671
Interest income	14,456	625	-
<b>Total revenue</b>	<b>\$ 700,496</b>	<b>\$ 667,979</b>	<b>\$ 630,647</b>

Monitoring and activation 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 and bail 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

Revenues for the fiscal quarter ended October 31, 2006 increased by 5% as compared to 2005, and the expenses have increased by 8%.

Key operational items that increased the expenses for the fiscal year were monitoring and activation fees, which increased \$11,058 over the previous comparable period, and equipment rent and installation, which increased \$16,705 over the previous comparable period. The increasing costs of monitoring and activation fees along with equipment rent and installation 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.

Additional increases in these expenses consist of: salaries and benefits with an increase of \$7,584, amortization, with an increase of \$7,258 over the comparable period and professional fees, with an increase of \$3,551 over the comparable period.

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 quarter ended October 31, 2006 net income was \$129,905 as compared to \$149,618 in 2005. As detailed above, this reduction in net earning is attributable primarily to the increased direct operating costs, and the Company recording a greater provision for income taxes.

Category	Changes – Fiscal 2006 Compared to 2005
Salaries and benefits	Increase: Higher compensation.
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	Decrease: Less activity related to potential acquisition.
Shareholder communications	Decrease: No longer incurring costs associated to consolidation of shares.
Professional fees	Increase: Higher audit fees
Office	Increase: Additional telecommunication services required to service our growing client base.
Interest on capital leases	Decrease: One lease was paid in full.

During the quarter ended October 31, 2006 as compared to 2005, the Company incurred similar level of expenses for stock based compensation and directors fees.

## 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 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, and another \$22,662 during the fiscal quarter ended October 31, 2006.

### Liquidity

At October 31, 2006, the Company had cash of \$2,274,175 and a working capital of \$2,163,538.

#### Financial Position

	<u>As at October 31, 2006</u>	<u>As at July 31, 2006</u>
Current assets	\$ 2,772,746	\$ 2,603,772
Property and equipment	258,281	281,322
Other assets	32,336	34,258
Total assets	<u>\$ 3,063,363</u>	<u>\$ 2,919,352</u>
Current liabilities	\$ 609,208	\$ 630,384
Capital lease obligation	144,023	163,815
Total liabilities	<u>\$ 753,231</u>	<u>\$ 794,199</u>
Stockholders' equity	<u>\$ 2,310,132</u>	<u>\$ 2,125,153</u>
Working capital	<u>\$ 2,163,538</u>	<u>\$ 1,973,388</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 deferred revenues and capital leases.

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, 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 \$184,031 during the quarter ended October 31, 2006, as compared to \$90,859 in 2005. The increase in cash flows from operations is principally due to the payment of corporate taxes during the quarter ended October 31, 2005.

The Company financing activities consisted of \$18,453 (2005 - \$24,488) 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 89% of revenue for the fiscal quarter ended October 31, 2006 (2005 - 92%). Please refer to note 8 of the Company's unaudited financial statements for the period ended October 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 October 31, 2006, \$18,225 (2005 - \$7,500) is due to the directors. During the quarter ended October 31, 2006, \$6,000 was accrued as an incentive bonus to a director who is also the President of the Company (2005 - \$0).

During the quarter ended October 31, 2006, \$7,500 (2005 - \$7,500) was accrued to the directors of the Company as directors fees.

During the quarter ended October 31, 2006, \$6,486 (2005 - \$2,035) was paid to an officer of the Company for accounting fees.

These fees, salary, benefits and bonus were paid or accrued as management compensation in the normal course of operations.

### **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 and in the financial statements for the quarter ended October 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 October 31, 2006, the Company had cash balances that exceeded the federally insured limits by \$2,174,175. 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.

As described in note 12 of the interim financial statements for the period ended October 31, 2006, on November 30, 2006, the Company cancelled 46,668 options that had been granted to its directors on June 9, 2005. These options were to vest in December 2006. Accordingly, the following are outstanding at December 21, 2006:

Common shares	2,295,736
Shares issuable on the exercise of outstanding stock options	299,048
Shares available for future stock option grants	172,140

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 October 31, 2006, \$78,680 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 October 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)