

**JEMTEC INC.**

**Management Discussion and Analysis**

**April 30, 2007**

*This Management Discussion and Analysis of JEMTEC Inc. ("JEMTEC" or the "Company") provides analysis of JEMTEC's financial results for the fiscal period ended April 30, 2007. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements as at April 30, 2007. 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: June 27, 2007**

This management discussion and analysis, dated June 27, 2007, is to accompany the financial statements of the Company for the three and nine month periods ended April 30, 2007.

**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 2007 and 2006 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.

	Three month periods ended April 30,			Nine month periods ended April 30,		
	2007	2006	2005	2007	2006	2005
Revenue	\$ 716,339	\$ 671,740	\$ 647,895	\$ 2,145,257	\$ 2,009,689	\$ 1,915,264
Expenses	474,039	515,978	368,893	1,334,893	1,436,567	951,512
Net income before income taxes	242,300	155,762	279,002	810,364	573,122	963,752
Income tax expense	93,659	56,799	100,451	321,286	216,394	346,961
Net income for the period	<u>\$ 148,641</u>	<u>\$ 98,963</u>	<u>\$ 178,551</u>	<u>\$ 489,078</u>	<u>\$ 356,728</u>	<u>\$ 616,791</u>
Earnings per share						
Basic	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.08</u>	<u>\$ 0.21</u>	<u>\$ 0.15</u>	<u>\$ 0.27</u>
Diluted	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.07</u>	<u>\$ 0.20</u>	<u>\$ 0.15</u>	<u>\$ 0.26</u>

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

The unaudited financial statements for the fiscal quarters ended April 30, 2007 and 2006 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.

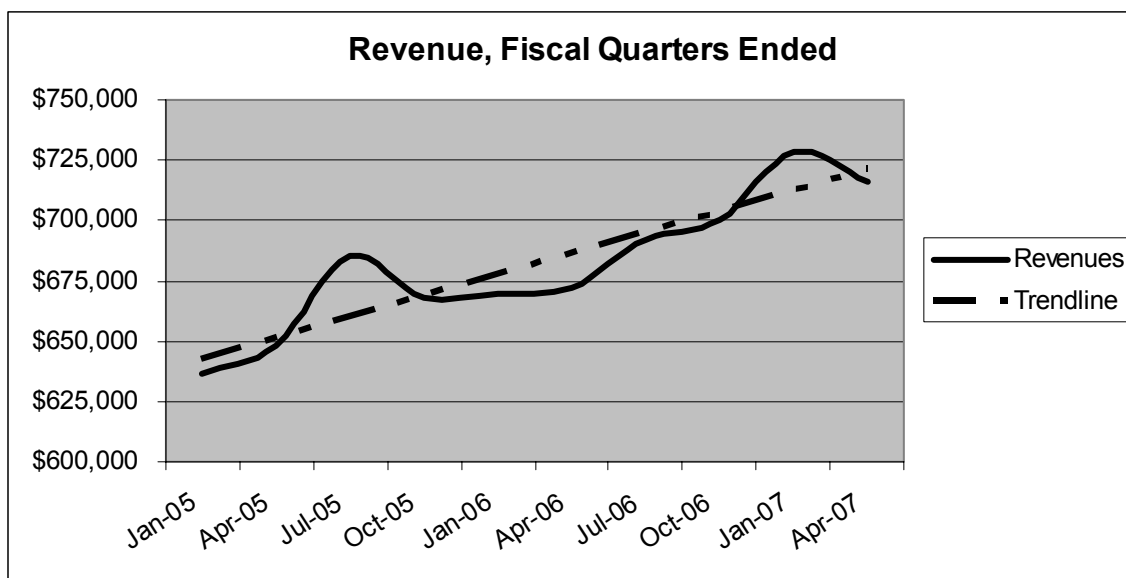
We present below unaudited summarized information for the last eight fiscal quarters.

	Quarters Ended							
	April 30 2007	January 31 2007	October 31 2006	July 31 2006	April 30 2006	January 31 2006	October 31 2005	July 31 2005
Revenue	\$ 716,339	\$ 728,423	\$ 700,496	\$ 691,808	\$ 671,740	\$ 669,970	\$ 667,979	\$ 685,048
Expenses	474,039	400,742	460,113	396,656	515,978	493,162	427,427	514,187
Net income before taxes	\$ 242,300	\$ 327,681	\$ 240,383	\$ 295,152	\$ 155,762	\$ 176,808	\$ 240,552	\$ 170,861
Provision for taxes	93,659	117,066	110,561	158,682	56,799	68,961	90,634	73,127
<b>Net income</b>	<u>\$ 148,641</u>	<u>\$ 210,615</u>	<u>\$ 129,822</u>	<u>\$ 136,470</u>	<u>\$ 98,963</u>	<u>\$ 107,847</u>	<u>\$ 149,918</u>	<u>\$ 97,734</u>
Basic earnings per share	<u>\$ 0.06</u>	<u>\$ 0.09</u>	<u>\$ 0.06</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>	<u>\$ 0.05</u>	<u>\$ 0.06</u>	<u>\$ 0.04</u>

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 three and nine month periods ended April 30, 2007, the Company continued to earn revenue on its main contracts, and also on private bail project. Revenues have increased by 7% as compared to the nine month period ended April 30, 2006.



The Company presently derives substantially all of its revenue from two customers of which one customer contributed approximately 87% of revenue in 2007 and 92% in 2006. 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 April 30,		
	2007	2006	2005
<b>Revenue</b>			
Leasing, monitoring and activation	\$ 658,083	\$ 650,429	\$ 628,619
Bail	35,994	9,892	12,615
Other	-	-	325
Interest income	22,262	11,419	6,336
<b>Total revenue</b>	<b>\$ 716,339</b>	<b>\$ 671,740</b>	<b>\$ 647,895</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. 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 usual term of service agreements is one 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 is 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 April 30, 2007 increased by 7% as compared to 2006, and expenses decreased by 8%. Revenues for the nine month period ended April 30, 2007 increased by 7% as compared to 2006, and the expenses decreased by 7%. The revenue increase is related to an increase in the overall number of clients monitored and the increase in the number of clients on bail. The decrease in expenses is mainly due to the fact that the Company is no longer incurring costs associated with the consolidation of the shares, and is no longer recording stock based compensation, due to the cancellation of certain stock options.

Key operational items that increased the expenses for the fiscal year are monitoring and activation fees and equipment rent and installation, which, combined, increased \$61,048 over the nine month period ended April 30, 2006. These increasing costs are 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 during the last quarter of fiscal 2007 and the first two quarters of fiscal 2008. Some of the increases in these costs have been mitigated by the strengthening of the Canadian dollar in 2007 as compared to 2006 as the Company purchases its equipment from U.S. suppliers.

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.

Additional increases in expenses in the nine month period ended April 30, 2007 as compared to the nine month period ended April 30, 2006 consist of:

- salaries and benefits, with an increase of \$43,328, due to higher compensation related to targets being met by the President;
- amortization, with an increase of \$22,521 due to additional equipment related to Ontario and Saskatchewan being amortized; and
- office expenses, with an increase of \$16,649 due to additional telecommunication services required to service our growing client base.

The increases in the expense categories described above were largely offset by decreases in other areas: a decrease of \$6,910 in repairs and maintenance, \$41,593 in consulting fees, \$28,050 in shareholder communications, \$25,470 in professional fees, \$115,144 in stock based compensation, and \$19,050 in accounting and administrative fees.

**Net earnings**

For the quarter ended April 30, 2007 net income was \$148,641 as compared to \$98,963 in 2006. For the nine month period ended April 30, 2007 net income was \$489,078 as compared to \$256,728 in 2006. As detailed above, this increase in net earning is attributable primarily to the decreased costs in all areas to the exception of salaries and benefits, amortization, office, repairs and maintenance and equipment rent and installation.

Category	Changes – Fiscal 2007 Compared to 2006
Salaries and benefits	Increase: Higher compensation.
Amortization	Increase: Additional equipment related to the Ontario and Saskatchewan projects being amortized.
Repairs and maintenance	Decrease: In 2006, 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 and Equipment rent and Installation	Increase: Greater number of clients being activated and 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.
Consulting fees	Decrease: Less activity related to potential acquisitions.
Shareholder communications	Decrease: No longer incurring costs associated to consolidation of shares.
Professional fees	Decrease: No longer incurring costs associated to consolidation of shares.
Office	Increase: Additional telecommunication services required to service our growing client base.
Directors' fees	Decrease: No longer incurring costs associated to consolidation of shares.
Stock based compensation	Decrease: All options granted in fiscal 2005 have vested, and certain options were cancelled.
Accounting and administrative	Decrease: Hired accounting staff directly in 2007 as opposed to paying higher fees through an agency in 2006.
Interest on capital leases	Decrease: One lease was paid in full.

During the nine month period ended April 30, 2007 as compared to 2006, the Company incurred similar level of other interest expense.

#### **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 \$67,137 during the nine month period ended April 30, 2007.

**Liquidity**

At April 30, 2007, the Company had cash and cash equivalent of \$2,647,176 and a working capital of \$2,520,258.

	<u>As at April 30, 2007</u>	<u>As at July 31, 2006</u>
Current assets	\$ 3,155,353	\$ 2,603,772
Property and equipment	223,034	281,322
Other assets	28,492	34,258
Total assets	<u>\$ 3,406,879</u>	<u>\$ 2,919,352</u>
Current liabilities	\$ 635,095	\$ 630,384
Capital lease obligation	102,479	163,815
Total liabilities	<u>\$ 737,574</u>	<u>\$ 794,199</u>
Stockholders' equity	<u>\$ 2,669,305</u>	<u>\$ 2,125,153</u>
Working capital	<u>\$ 2,520,258</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. 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 \$268,099 during the quarter ended April 30, 2007, as compared to a deficit of \$11,193 in 2006. The increase in cash flows from operations is principally due to the additional revenues during the period and a large fluctuation in accounts receivable offset by the elimination of stock compensation expense. During the nine month period ended April 30, 2007, the Company's operating cash flows were \$610,159 as compared to \$199,657 in 2006. This increase in operating cash flows is due to increased earnings in 2006, also the Company did not pay taxes by instalments during the fiscal 2005 year, and remitted the required taxes due during the first quarter of the fiscal year ended July 31 2006.

Cash flow used for investing activities for the quarter and the nine months ended April 30, 2007 relate primarily to the purchase of fixed assets. During the quarter ended April 30, 2007, the Company financing activities consisted of \$18,686 (2006 - \$17,820) related to payments on capital lease obligations. During the nine month period ended April 30, 2007, the Company financing activities consisted of \$55,352 (2006 - \$62,279) 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 87% of revenue for the nine month period ended April 30, 2007 (2006 - 92%). Please refer to note 8 of the Company's unaudited financial statements for the period ended April 30, 2007. 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 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**

During the nine month period ended April 30, 2007, \$11,600 was paid and another \$20,000 was accrued to a director who is also the President of the Company, as an incentive bonus (2006 - \$0).

During the nine month period ended April 30, 2007, \$16,500 (2006 - \$19,500) was paid to the directors of the Company as directors' fees, and an additional \$22,500 (2006 - \$22,500) was accrued.

During the nine month period ended April 30, 2007 \$17,265 (2006 - \$15,863) 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 period ended April 30, 2007 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 April 30, 2007, the Company had cash balances that exceeded the federally insured limits by \$2,547,176. 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 June 27, 2007:

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 April 30, 2007, \$78,136 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 implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure. However the Company has a limited number of staff and as such is heavily dependant on the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) resulting in an inherent weakness in the system of internal controls due to an inability to achieve appropriate segregation of duties. Board of Directors' review of financial reporting is utilized to mitigate the risk of material misstatement in financial reporting. There have been no significant changes to the Company's internal control environment during the nine months ended April 30, 2007, that would have materially effected the Company's internal controls over financial reporting.

**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)