

JEMTEC INC.

Management Discussion and Analysis

July 31, 2007

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, 2007. 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, 2007.

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 20, 2007

This management discussion and analysis, dated November 20, 2007, is to accompany the financial statements of the Company for the fiscal year ended July 31, 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 (“Pro-Tech”) and the exclusive Canadian distributor of BI Inc.’s (“BI”) 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 and BI for the continued supply of monitoring equipment, replacement parts, and maintenance services for resale or rental by the Company.

JEMTEC’s business model is project driven. Since 1987, the Company has provided Canadian federal and provincial government agencies with offender monitoring services and technologies under project agreements with terms of 3 to 5 years.

In July 2007, JEMTEC received notice that the Ontario Ministry of Community Safety and Correctional Service (“OMCSCS”) would not exercise its right to extend the present service agreement, referred to the Electronic Supervision Program (“ESP”) beyond the current contracted term of January 2008. However, in October 2007, the Company and OMCSCS agreed to extend the ESP service agreement to April 30, 2008 under the same terms and conditions. Revenues derived from this agreement represented 87% of

total revenues during the fiscal year ended July 31, 2007. JEMTEC will be presenting a competitive proposal to the OMCSCS as part of the new tender process. The decision by the OMCSCS to significantly amend the ESP model or discontinue the use of the Company's services after April 2008 would adversely affect the Company's operating results.

The Company is actively pursuing other business opportunities such as acquisitions and partnerships.

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,		
	2007	2006	2005
Revenue	\$ 2,878,788	\$ 2,701,497	\$ 2,600,312
Expenses	1,820,211	1,833,223	1,465,699
Net income before income taxes	1,058,577	868,274	1,134,613
Income tax expense	399,255	375,076	420,088
Net income for the period	\$ 659,322	\$ 493,198	\$ 714,525
Earnings per share			
Basic	\$ 0.29	\$ 0.21	\$ 0.33
Diluted	\$ 0.28	\$ 0.20	\$ 0.32

Item 4 and 5. Results of Operations, Quarterly Results

The audited financial statements for the years ended July 31, 2007 and 2006 present the financial results of our financings, investments and operations. The following discussion provides additional information not included in the financial statements.

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

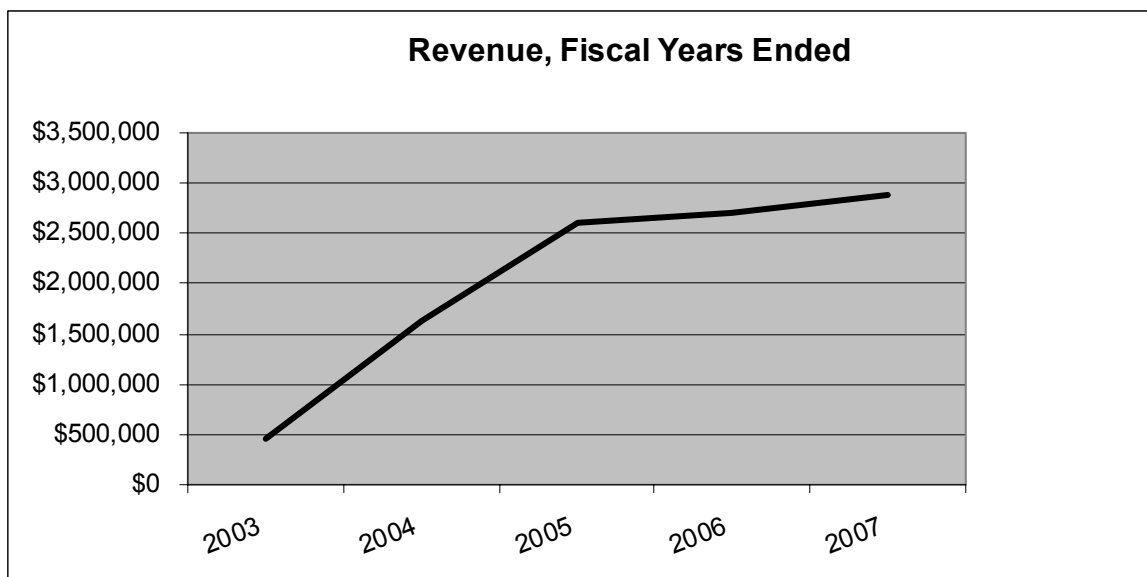
	Quarters Ended							
	July 31 2007	April 30 2007	January 31 2007	October 31 2006	July 31 2006	April 30 2006	January 31 2006	October 31 2005
Revenue	\$ 733,530	\$ 716,339	\$ 728,423	\$ 700,496	\$ 691,808	\$ 671,740	\$ 669,970	\$ 667,979
Expenses	485,317	474,039	400,742	460,113	396,656	515,978	493,162	427,427
Net income before taxes	\$ 248,213	\$ 242,300	\$ 327,681	\$ 240,383	\$ 295,152	\$ 155,762	\$ 176,808	\$ 240,552
Provision for taxes	77,969	93,659	117,066	110,561	158,682	56,799	68,961	90,634
Net income	\$ 170,244	\$ 148,641	\$ 210,615	\$ 129,822	\$ 136,470	\$ 98,963	\$ 107,847	\$ 149,918
Basic earnings per share	\$ 0.07	\$ 0.06	\$ 0.09	\$ 0.06	\$ 0.06	\$ 0.04	\$ 0.05	\$ 0.06

Except for the third quarter of 2007, quarter to quarter, revenues have been increasing. Expenses as a percentage of revenues have decreased in the four quarters of fiscal 2007 as compared to the four quarters of fiscal 2006 (63% as compared to 68%). This decrease is mainly attributed that a significant

portion of the additional expenses in 2006 were 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, 2007, the Company earned revenue on its main contracts, and also on private bail contracts. Overall revenues have increased by 7% for fiscal 2007 as compared to the fiscal year ended 2006.



The Company presently derives substantially all of its revenue from two customers of which one customer, OMCSGS, contributed approximately 87% of revenue in 2007 and 90% in 2006. In July 2007, JEMTEC received notice that the Ontario Ministry of Community Safety and Correctional Service ("OMCSGS") would not exercise its right to extend the present ESP service agreement beyond the current contracted term of January 2008. However, in October 2007, the Company and OMCSGS agreed to extend the ESP service agreement to April 30, 2008 under the same terms and conditions. JEMTEC will be presenting a competitive proposal to the OMCSGS as part of the new tender process. The decision by the OMCSGS to significantly amend the ESP model or discontinue the use of the Company's services after April 2008 would adversely affect the Company's operating results.

	Years Ended July 31,		
	2007	2006	2005
Revenue			
Leasing, monitoring and activation	\$ 2,697,538	\$ 2,595,535	\$ 2,550,200
Bail	91,189	50,151	32,149
Other	-	-	3,728
Interest income	90,061	55,811	14,235
Total revenue	\$ 2,878,788	\$ 2,701,497	\$ 2,600,312

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.

The Company currently rents the monitoring equipment provided to the OMCSCS from BI. Upon the termination of the agreement, the equipment will be returned, without further costs, to BI. The servers utilised to service the OMCSCS were acquired under a lease agreement that have been depreciated over the life of the contract agreement and will be disposed of for nominal value.

Expenses

Revenues for the fiscal year ended July 31, 2007 increased by 7% as compared to 2006, and expenses decreased by 1%. The revenue increase is related to an increase in the overall number of clients monitored, the increase in the number of clients on bail and increase in interest income. The additional costs incurred by the larger volume of clients being monitored had been offset by 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 \$83,725 from the previous year. These increased costs are related to a greater number of clients being 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 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 year ended July 31, 2007 as compared to the July 31, 2006 year end consist of:

- salaries and benefits, with an increase of \$74,517, due to higher compensation related to targets being met by the President;
- amortization, with an increase of \$5,094 due to additional equipment related to Ontario and Saskatchewan being amortized;
- travel, with an increase of \$5,113 due to and activities related to the assessment of potential business combinations; and
- office expenses, with an increase of \$62,257 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 \$7,300 in repairs and maintenance, \$34,364 in consulting fees, \$44,037 in shareholder communications, \$27,505 in professional fees, \$115,144 in stock based compensation, and \$13,609 in accounting and administrative fees.

Net earnings

For the year ended July 31, 2007 net income was \$659,322 compared to \$493,198 in 2006. As detailed above, this increase in net earning is attributable primarily to the decreased costs and an increase of 7% in revenues.

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 consulting activity related to potential acquisitions.
Travel	Increase: Additional travel related to pursuing potential business combinations.
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.
Interest on capital leases	Decrease: One lease was paid in full.
Other interest expenses	Increase: Due to penalties and interest related to late payment of corporate taxes in fiscal 2006
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.

During the year ended July 31, 2007 as compared to 2006, the Company incurred similar level of expenses for director's 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 \$89,375 during the year ended July 31, 2007.

Liquidity

At July 31, 2007, the Company had cash and cash equivalent net of \$2,786,723 and a working capital of \$2,694,273.

Financial Position

	As at July 31,		
	2007	2006	2005
Current assets	\$ 3,301,503	\$ 2,603,772	\$ 2,174,549
Property and equipment	196,110	281,322	365,122
Other assets	31,204	34,258	41,947
Total assets	<u>\$ 3,528,817</u>	<u>\$ 2,919,352</u>	<u>\$ 2,581,618</u>
Current liabilities	\$ 607,230	\$ 630,384	\$ 793,056
Capital lease obligation	82,038	163,815	238,922
Total liabilities	<u>\$ 689,268</u>	<u>\$ 794,199</u>	<u>\$ 1,031,978</u>
Stockholders' equity	<u>\$ 2,839,549</u>	<u>\$ 2,125,153</u>	<u>\$ 1,549,640</u>
Working capital	<u>\$ 2,694,273</u>	<u>\$ 1,973,388</u>	<u>\$ 1,381,493</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 \$768,911 during the year ended July 31, 2007, as compared to \$506,895 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 payable offset by the elimination of stock compensation expense.

Cash flow used for investing activities for the year ended July 31, 2007 relate primarily to the purchase of fixed assets. During the year ended July 31, 2007, the Company financing activities consisted of \$74,375 (2006 - \$80,412) related to payments on capital lease obligations.

As detailed in items 2, 4 and 5, the Company derives a significant portion of its revenue (2007 - 87%, 2006 - 90%) from its contract with the OMCSGS. In July 2007, JEMTEC received notice that the Ontario Ministry of Community Safety and Correctional Service ("OMCSGS") would not exercise its right to extend the present ESP service agreement beyond the current contracted term of January 2008. However, in October 2007, the Company and OMCSGS agreed to extend the ESP service agreement to April 30, 2008 under the same terms and conditions. The decision by the OMCSGS to significantly amend the ESP model or discontinue the use of the Company's services after April 2008 would adversely affect the Company's operating results. Please refer to note 8 of the Company's audited financial statements for the year ended July 31, 2007.

In addition to presenting a competitive proposal to the OMCSGS as part of the new tender process, the Company is actively pursuing other business opportunities such as acquisitions and partnerships.

Except as described above, the Company's management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Company's management believes that its cash balances, combined with its cash flow from current operations, will be sufficient to meet the Company's short-term and long-term requirements for ongoing operations and planned growth.

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

During the year ended July 31, 2007, \$61,000 (2006 - \$1,600) was accrued or paid to a director who is also 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. At July 31, 2007, \$51,000 (2006 - \$1,600) is due to the President.

During the year ended July 31, 2007, \$51,500 (2006 - \$53,500) was paid to the directors of the Company as directors' fees.

During the year ended July 31, 2007 \$23,226 (2006 - \$19,382) 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 10. Fourth Quarter

JEMTEC INC.Statements of Operations and Retained Earnings
For the Fourth Quarter Ended July 31,

	2007	2006
Revenue		
Leasing, monitoring and activation	\$ 701,292	\$ 671,910
Interest income	32,238	19,898
	<u>733,530</u>	<u>691,808</u>
Expenses		
Salaries and benefits	88,995	57,806
Amortization	26,924	44,352
Repairs and maintenance	6,701	7,091
Monitoring and activation fees	144,836	94,560
Equipment rent and installation	64,140	73,447
Consulting fees	35,239	28,000
Travel	11,139	3,869
Shareholder communications	4,592	20,579
Professional fees	9,590	11,625
Office	66,095	38,779
Interest on capital leases	3,214	4,528
Other interest expenses	5,391	-
Stock-based compensation	-	-
Directors' fees	12,500	11,500
Accounting and administrative fees	5,961	520
	<u>485,317</u>	<u>396,656</u>
Income before income taxes	<u>248,213</u>	<u>295,152</u>
Income tax expense		
Current	80,681	158,751
Future	(2,712)	(69)
	<u>77,969</u>	<u>158,682</u>
Net income for the period	<u>170,244</u>	<u>136,470</u>
Retained earnings - Beginning of period	1,204,151	581,130
Effect of share consolidation	-	(2,527)
Retained earnings - End of period	<u>\$ 1,374,395</u>	<u>\$ 715,073</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, 2007 and 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, 2007, the Company had cash balances that exceeded the federally insured limits by \$2,678,788. All of these funds are on deposit with a Schedule A bank in Canada.

Item 15. Capital Stock, Stock Options and Warrants

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 20, 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 July 31, 2007, \$77,955 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) which results in an inherent weakness in the system of internal controls due to an inability to achieve appropriate segregation of duties. The 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 year ended July 31, 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 and on the Company's website at www.JEMTEC.ca