

JEMTEC INC.

Interim Financial Statements April 30, 2008

Notice to Reader:

The accompanying interim financial statements of JEMTEC Inc. for the three and nine month periods ended April 30, 2008 have been prepared by and are the responsibility of the Company's management. These statements are unaudited and have not been reviewed by independent auditors.

JEMTEC INC.

Balance Sheets

April 30, 2008

July 31, 2007

ASSETS

Current

Cash and cash equivalents	\$ 3,335,726	\$ 2,786,723
Accounts receivable	590,171	494,047
Prepaid expenses and deposits	13,751	20,733

Total current assets 3,939,648 3,301,503

Property and equipment (note 4) 128,969 196,110

Deferred acquisition costs 28,083 -

Future income taxes 28,912 31,204

Total assets \$ 4,125,612 \$ 3,528,817

LIABILITIES

Current

Accounts payable and accrued liabilities (notes 6(b) and 8)	\$ 540,308	\$ 436,036
Deferred revenue	7,663	31,761
Current portion of capital lease obligation (note 5)	67,614	79,606
Income taxes payable	43,359	59,827

Total current liabilities 658,944 607,230

Capital lease obligation (note 5) 34,866 82,038

Total liabilities 693,810 689,268

SHAREHOLDERS' EQUITY

Share capital (note 6)	1,235,750	1,215,250
Contributed surplus (note 6(c))	249,904	249,904
Retained earnings (note 6(b))	1,946,148	1,374,395

Total shareholders' equity 3,431,802 2,839,549

Total liabilities and shareholders' equity \$ 4,125,612 \$ 3,528,817

The accompanying notes are an integral part of these unaudited financial statements

Approved by the Board of Directors:

"Eric Caton"
Director

"Leslie Markow"
Director

JEMTEC INC.**Statements of Operations and Retained Earnings**

	For the three month period ended April 30,		For the nine month period ended April 30,	
	2008	2007	2008	2007
Revenue				
Leasing, monitoring and activation (note 7)	\$ 820,028	\$ 694,077	\$ 2,349,117	\$ 2,087,435
Interest income	23,870	22,262	80,861	57,822
	843,898	716,339	2,429,978	2,145,257
Expenses				
Salaries and benefits	59,111	80,506	231,200	208,373
Amortization	24,238	24,322	80,435	70,389
Repairs and maintenance	3,983	1,018	14,462	12,726
Monitoring and activation fees	252,985	163,852	491,193	432,219
Equipment rent and installation	60,196	79,938	263,336	215,393
Consulting fees	44,221	31,448	120,127	85,448
Travel	7,999	7,407	38,277	27,545
Shareholder communications	7,180	3,756	25,011	16,726
Professional fees	17,241	5,655	52,566	24,221
Office	49,135	49,311	157,519	113,242
Interest on capital leases	2,161	3,552	7,549	11,644
Other interest expenses	872	5,580	3,862	5,628
Stock-based compensation (note 6(c))	-	-	-	55,074
Directors' fees	14,000	14,000	44,500	39,000
Accounting and administrative fees	6,788	3,694	20,355	17,265
	550,110	474,039	1,550,392	1,334,893
Income before income taxes	293,788	242,300	879,586	810,364
Income tax expense				
Current	100,512	91,737	305,541	315,520
Future	764	1,922	2,292	5,766
	101,276	93,659	307,833	321,286
Net income for the period	192,512	148,641	571,753	489,078
Retained earnings - Beginning of period	1,753,636	1,055,510	1,374,395	715,073
Retained earnings - End of period	\$ 1,946,148	\$ 1,204,151	\$ 1,946,148	\$ 1,204,151
Earnings per share:				
Basic	\$ 0.08	\$ 0.06	\$ 0.24	\$ 0.21
Diluted	\$ 0.08	\$ 0.06	\$ 0.24	\$ 0.20
Weighted average number of shares outstanding:				
Basic	2,395,736	2,295,736	2,336,762	2,295,736
Diluted	2,410,790	2,368,885	2,351,816	2,388,359

The accompanying notes are an integral part of these unaudited financial statements

JEMTEC INC.**Statements of Cash Flows**

	For the three month period ended April 30,		For the nine month period ended April 30,	
	2008	2007	2008	2007
Cash flows from (used in) operating activities				
Net income for the period	\$ 192,512	\$ 148,641	\$ 571,753	\$ 489,078
Adjustments to reconcile net income to net cash used in operating activities:				
- amortization	24,238	24,322	80,435	70,389
- stock-based compensation	-	-	-	55,074
- future income taxes	764	1,922	2,292	5,766
Changes in non-cash working capital:				
- accounts receivable	35,964	(8,691)	(96,124)	(14,429)
- prepaid expenses	12,149	(9,959)	6,982	927
- accounts payable and accrued liabilities	89,455	51,115	36,772	43,306
- deferred revenue	(1,397)	29,599	(24,098)	19,508
- due to related parties	7,500	20,000	67,500	20,000
- income taxes payable	-	11,150	(16,468)	(79,460)
Cash flows - operating activities	361,185	268,099	629,044	610,159
Cash flows (used in) investing activities				
Payment to shareholders (note 6(b))	-	(544)	-	(1,044)
Deferred acquisition costs	(28,083)	-	(28,083)	-
Purchase of property and equipment	-	(15,684)	(13,294)	(15,684)
Cash flows - investing activities	(28,083)	(16,228)	(41,377)	(16,728)
Cash flows (used in) financing activities				
Proceeds from exercise of options	-	-	20,500	-
Payment on capital lease obligation	(19,719)	(18,686)	(59,164)	(55,352)
Cash flows - financing activities	(19,719)	(18,686)	(38,664)	(55,352)
Net increase in cash	313,383	233,185	549,003	538,079
Cash and cash equivalents, beginning of period	3,022,343	2,413,991	2,786,723	2,109,097
Cash and cash equivalents, end of period	\$ 3,335,726	\$ 2,647,176	\$ 3,335,726	\$ 2,647,176

The accompanying notes are an integral part of these unaudited financial statements

Supplemental cash disclosures**Cash paid for:**

Income taxes	\$ 100,512	\$ 83,720	\$ 322,009	\$ 378,721
Interest	\$ 3,033	\$ 9,132	\$ 11,411	\$ 17,272

1. Nature of Operations

The Company's core business is the provision of services and technology for offender monitoring in Canadian federal and provincial correctional departments.

2. Significant Accounting Policies

a) General

These financial statements have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles. Where applicable, comparative figures have been reclassified to conform with the presentation used in the current period.

b) Use of estimates

The preparation of these financial statements in conformity with generally accepted accounting principles in Canada requires management to make estimates and assumptions that affect the 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.

c) Currency and foreign exchange

The functional currency of the Company is the Canadian dollar. Monetary assets and liabilities denominated in another currency are translated at exchange rates in effect at the balance sheet dates. Other non-monetary balance sheet items denominated in another currency are translated at the rates of exchange in effect at the time the items arose. Revenue and expenses are translated at the exchange rates in effect at the time of the transaction. Gains and losses arising from fluctuations in exchange rates are included in operations for the periods in which they occur.

d) Cash and cash equivalents

Cash includes cash on hand and demand deposits. Cash equivalents include short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value and have maturities of three months or less from the original date of acquisition.

e) Property and equipment

Property and equipment are stated at cost less accumulated amortization. Amortization is charged to earnings over the estimated useful lives of the respective assets at the following rates:

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

Expenditures for maintenance and repairs that do not improve or extend the life of the assets are expensed as operations, while major repairs are capitalized.

f) Asset impairment

On an annual basis, or when impairment arises, the Company evaluates the future recoverability of its property and equipment. Impairment losses or write-downs are recorded in the event the net book value of such assets exceeds the estimated future cash flows attributable to such assets.

2. Significant Accounting Policies (continued)

g) 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 for 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 and 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.

h) Stock-based compensation

The Company follows the recommendations of CICA Handbook Section 3870 "*Stock-based Compensation and Other Stock-based Payments*" which establishes standards for the recognition, measurement and disclosure of stock-based compensation and other stock-based payments made in exchange for goods and services. These recommendations require that compensation for all awards made, including stock appreciation rights, direct awards of stock and awards that call for settlement in cash or other assets, be measured and recorded in the financial statements at fair value. For the purpose of this Section, employees include directors who receive stock compensation for services provided as director. This Section also sets out fair value based methods of accounting for stock options issued to employees.

The Company uses the fair value based method of accounting for stock based compensation for all grants of options to employees, non-employees and directors. All option grants are accounted for by using the fair value based method, and stock based compensation expense is computed using the Black-Scholes option pricing model. 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.

i) Earnings per share

Basic earnings per share is computed by dividing earnings (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted earnings per share has been calculated using the treasury stock method. This method assumes that common shares are issued for the exercise of warrants and options and that the assumed proceeds from the exercise of warrants and options are used to purchase common shares at the average market price during the period. The difference between the number of shares assumed issued and the number of shares assumed purchased is then added to the basic weighted average number of shares outstanding to determine the fully diluted number of common shares outstanding. No exercise or conversion is assumed during periods in which a net loss is incurred as the effect is anti-dilutive.

2. Significant Accounting Policies (continued)

j) 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.

3. 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, income taxes payable, and capital lease obligations. The fair values of these instruments approximate 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.

a) Credit risk

The Company's principal business activities are located in Canada. The Company performs certain credit evaluation procedures and does not require collateral for financial instruments subject to credit risk. The Company believes that credit risk is limited because the company routinely assesses the financial strength of its customers, and based upon factors surrounding the credit risk of its customers, establishes an allowance for uncollectible accounts and, as a consequence, believes that its account receivable credit risk beyond such allowances is limited.

The Company had net sales to four major customers during the nine month period ended April 30, 2008, of which one customer contributed approximately 83% of revenue (2007 – 87%). Refer to note 7.

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, 2008, the Company had cash balances on deposit that exceeded federally insured limits by \$3,235,726. All of these funds are on deposit with a Schedule A bank in Canada.

b) Fair value

Unless otherwise noted, cash, accounts receivable, accounts payable, income tax payable and capital lease obligation are stated at amounts that approximate fair value.

c) Foreign exchange risk

The Company is subject to currency risk due to the fluctuations of exchange rates between the Canadian and U.S. dollars. The Company pays for replacement parts and rental and monitoring services from suppliers in U.S. dollars. All of the Company's sales are received in Canada dollars.

d) Liquidity risk

The Company is exposed to liquidity risk as its continued operations are dependent upon the Company realizing its account receivable to satisfy its liabilities as they become due.

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April 30, 2008

4. Property and Equipment

	April 30, 2008			July 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 46,222	\$ 37,528	\$ 8,694	\$ 40,351	\$ 36,132	\$ 4,219
Monitoring equipment	480,286	360,011	120,275	472,863	280,972	191,891
	<u>\$ 526,508</u>	<u>\$ 397,539</u>	<u>\$ 128,969</u>	<u>\$ 513,214</u>	<u>\$ 317,104</u>	<u>\$ 196,110</u>

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (July 31, 2007 - \$373,100) and a net book value of \$114,565 (July 31, 2007 - \$170,530).

The Company amortizes its monitoring equipment over its estimated useful life as described in note 2. 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 may be required.

5. Capital Lease Obligation

Future minimum lease payments on capital leases are payable as follows:

		Principal	Imputed Interest	Total
Year ending July 31,	2008	20,441	1,795	22,236
	2009	82,039	2,954	84,993
	2010	-	-	-
		<u>102,480</u>	<u>4,749</u>	<u>\$ 107,229</u>
Less: amounts representing interest (8%)				<u>(4,749)</u>
Present value of minimum lease payments				102,480
Less: current portion				<u>(67,614)</u>
				<u>\$ 34,866</u>

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

6. Share Capital

a) Authorized

Common shares:	Unlimited, no par value
First preference shares:	Unlimited, no par value, issuable in series
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend

6. Share Capital (continued)

b) Issued and allotted

	Number of Common Shares	Amount
Balance July 31, 2004	2,071,659	\$ 1,112,993
Shares issued for exercise of stock options	<u>284,284</u>	<u>\$ 134,167</u>
Balance July 31, 2005	2,355,943	\$ 1,247,160
Effect of consolidation / deconsolidation	<u>(60,207)</u>	<u>\$ (31,910)</u>
Balance July 31, 2006 and 2007	2,295,736	\$ 1,215,250
Shares issued for exercise of stock options	<u>100,000</u>	<u>\$ 20,500</u>
Balance April 30, 2008	<u><u>2,395,736</u></u>	<u><u>\$ 1,235,750</u></u>

Pursuant to a special resolution passed by shareholders on April 21, 2006, the Company consolidated its common shares on a 100 old shares for 1 new share basis effective April 30, 2006, subsequently followed by a 1 for 100 share split effective May 1, 2006. 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, 2008 and July 31, 2007, \$77,955 remains in accounts payable and accrued liabilities for the shareholders who did not redeem their shares. Effective May 1, 2008, the share certificates that were not redeemed ceased to represent a right or claim of any kind or nature, and the right of such holder of the Company's shares and such certificates are deemed to be surrendered to the Company. Accordingly, in the fourth quarter of the fiscal year ending July 31, 2008, \$77,193 will be removed from accrued liabilities and added to contributed surplus.

c) Options

During the year ended July 31, 2003, the Company adopted a fixed stock option plan that permits the directors of the company to grant incentive stock options to employees, directors and consultants to the Company. The maximum number of shares issuable under the plan, which follows the policies of the TSX Venture Exchange ("TSXV") regarding stock option awards, was 414,332. In January 2006, the Company amended its stock option plan to increase the number of shares reserved for issuance under the plan to 471,188. Options granted under the plan vest in 6 equal installments over a period of 18 months, with the first installment vesting immediately, and the remaining options vesting upon 6, 9, 12, 15 and 18 months after the date of grant. The option exercise price is generally set as the market price at the time of grant; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX-Venture Exchange.

6. Share Capital (continued)

The table below summarizes the options that have been granted under the Company's stock option plan.

	Number of Options	Weighted Average Exercise Price
Outstanding, July 31, 2004	300,000	\$ 0.21
Granted	330,000	\$ 0.86
Exercised	<u>(284,284)</u>	\$ 0.33
Outstanding, July 31, 2005 and 2006	345,716	\$ 0.84
Cancelled	<u>(46,668)</u>	\$ 1.10
Outstanding, July 31, 2007	<u>299,048</u>	\$ 0.80
Exercised	<u>(100,000)</u>	\$ 0.21
Outstanding, April 30, 2008	<u>199,048</u>	\$ 1.10

During the year ended July 31, 2005, the Company granted 330,000 stock options. Stock-based compensation expense of \$65,067 resulted and, of this amount, \$40,455 was credited to share capital upon the exercise of previously vested stock options and \$24,612 was credited to contributed surplus. The fair value of the options granted is charged to earnings over the vesting period of 18 months. The fair value of the options granted in the fiscal year ended July 31, 2005 was estimated on the date of grant using the Black-Scholes option pricing model, assuming risk-free interest rates of 3.96%; dividend yield of \$nil; expected lives of 5 years and volatility of 122%.

During the year ended July 31, 2005, 284,284 options were exercised, for net proceeds of \$93,712. During the year ended July 31, 2006, stock-based compensation expense related to vesting of the 2005 stock option was credited to contributed surplus in the amount of \$170,218.

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. During the six month period ended January 31, 2007, stock-based compensation expense related to vesting of the 2005 stock option was credited to contributed surplus in the amount of \$55,074.

During the nine month period ended April 30, 2008, the Company issued 100,000 shares of common stock pursuant to the exercise of 100,000 stock options, for net proceeds of \$20,500.

Options outstanding at April 30, 2008 are as follows:

	# of Options Granted	Expiry	Exercise Price	Options Outstanding and Vested		
				Number Outstanding and Vested as at April 30, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Granted, June 9, 2005	<u>280,000</u>	23-Jun-10	\$ 1.10	<u>199,048</u>	2.15	\$ 1.10
	<u>280,000</u>			<u>199,048</u>	2.15 years	\$ 1.10

7. Economic Dependence

The Company presently derives substantially all of its revenue from four customers, of which one customer contributed approximately 83% of revenue during the nine month period ended April 30, 2008 (2007 - 87%).

While the contract with this customer ended in January 2008, it has been extended to August 31, 2008 under the same terms and conditions. In March 2008, the Company was informed that it was not the successful bidder in this client's electronic monitoring request for proposal process. This decision by this customer to discontinue the use of the Company's services after August 31, 2008 will adversely affect the Company's operating results. The Company will continue to earn revenues on its agreements with the Province of Saskatchewan, the Province of Nova Scotia, the Province of Manitoba and on its bail clients. Based on current operations, the Company anticipates that, starting September 1, 2008, cash reserves will be depleted by approximately \$150,000 per quarter. Refer to note 3(a).

The Company is a Canadian distributor of Pro-Tech Monitoring, Inc.'s ("Pro-Tech"), Omnilink Systems ("Omnilink") and the exclusive Canadian distributor of BI Inc.'s (all U.S. companies) offender monitoring and tracking devices; the sales and leasing of which account for substantially all of the Company's revenues, capital asset additions and replacement parts purchased. The Company is economically dependent on Pro-Tech, Omnilink and BI Inc. for the continued supply of monitoring equipment, replacement parts, and maintenance services provided by Pro-Tech Omnilink and BI Inc. for resale or rental by the Company.

8. Related Party Balances and Transactions

During the nine month period ended April 30, 2008, \$51,000 was paid and \$45,000 accrued to a director who is also the President of the Company under an incentive bonus plan in addition to salaries and benefits for management compensation in the normal course of operations (2007 - \$11,600). The \$51,000 bonus was accounted for in accounts payable and accrued liabilities at July 31, 2007.

During the nine month period ended April 30, 2008, \$44,500 (2007 - \$39,000) was accrued or paid to the directors of the Company as directors' fees.

During the nine month period ended April 30, 2008, \$20,355 (2007 - \$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.

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9. 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:

	<u>April 30, 2008</u>	<u>January 31, 2007</u>
Net income before taxes	\$ 879,586	\$ 810,364
Income taxes at federal and provincial statutory rates of 35% (2007 - 36%)	307,855	291,731
Increase (decrease) by the effect of		
Non-deductible items	-	22,071
Other	(22)	1,053
Income tax expense	<u>\$ 307,833</u>	<u>\$ 314,855</u>

Future tax assets of the Company are as follows:

	<u>April 30, 2008</u>	<u>July 31, 2007</u>
Excess of book over tax amortization	\$ 28,912	\$ 31,204
	<u>\$ 28,912</u>	<u>\$ 31,204</u>

10. Earnings per Share

The following table shows the effect of dilutive securities on the weighted average common share outstanding. No adjustments to earnings were required for the calculation of diluted earnings per share.

	<u>Three month period</u> ended April 30, 2008 2007		<u>Nine month period</u> ended April 30, 2008 2007	
	Number of shares		Number of shares	
Basic weighted average shares outstanding	2,395,736	2,295,736	2,336,762	2,295,736
Effect of dilutive securities:				
Options	<u>15,054</u>	<u>73,149</u>	<u>15,054</u>	<u>92,623</u>
Diluted weighted average shares outstanding	<u>2,410,790</u>	<u>2,368,885</u>	<u>2,351,816</u>	<u>2,388,359</u>