

JEMTEC INC.

**Financial Statements
July 31, 2008 and 2007**



AUDITORS' REPORT

To the Shareholders of
JEMTEC Inc.

We have audited the balance sheets of JEMTEC Inc. as at July 31, 2008 and 2007, and the statements of operations and retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Vancouver, Canada

November 26, 2008

"Morgan & Company"

Chartered Accountants

JEMTEC INC.

Balance Sheets

	July 31, 2008	July 31, 2007
ASSETS		
Current		
Cash and cash equivalents	\$ 3,380,996	\$ 2,786,723
Accounts receivable	706,427	494,047
Prepaid expenses and deposits	32,776	20,733
Total current assets	4,120,199	3,301,503
Equipment (note 6)	107,649	196,110
Future income taxes	28,148	31,204
Total assets	\$ 4,255,996	\$ 3,528,817
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 9(b) and 11)	\$ 497,118	\$ 436,036
Deferred revenue	8,246	31,761
Current portion of capital lease obligation (note 7)	82,039	79,606
Income taxes payable	9,979	59,827
Total current liabilities	597,382	607,230
Capital lease obligation (note 7)	-	82,038
Total liabilities	597,382	689,268
SHAREHOLDERS' EQUITY		
Share capital (note 9)	1,235,750	1,215,250
Contributed surplus (note 9(c))	249,904	249,904
Retained earnings (note 9(b))	2,172,960	1,374,395
Total shareholders' equity	3,658,614	2,839,549
Total liabilities and shareholders' equity	\$ 4,255,996	\$ 3,528,817

The accompanying notes are an integral part of these financial statements

Approved on behalf of the Board of Directors:

"Eric Caton"
Director

"Leslie Markow"
Director

JEMTEC INC.

Statements of Operations and Retained Earnings

	For the years ended July 31,	
	2008	2007
Revenue		
Leasing, monitoring and activation (notes 3 and 10)	\$ 3,169,992	\$ 2,788,727
Interest income	102,410	90,061
	3,272,402	2,878,788
Expenses		
Accounting and administrative fees	64,586	23,226
Amortization	101,754	97,313
Consulting fees	169,777	120,687
Directors' fees	55,167	51,500
Equipment rent and installation	247,330	279,533
Interest on capital leases	9,345	14,858
Monitoring and activation fees	796,740	577,055
Office	199,485	179,338
Other interest expenses	3,922	11,019
Professional fees	89,232	33,811
Repairs and maintenance	17,982	19,427
Salaries and benefits	340,226	297,368
Shareholder communications	27,051	21,318
Stock-based compensation (note 9(c))	-	55,074
Travel	52,704	38,684
	2,175,301	1,820,211
Income before other item and income taxes	1,097,101	1,058,577
Other item		
Write-off of accrued liability (note 9 (b))	77,193	-
Income before income taxes	1,174,294	1,058,577
Income tax expense		
Current	372,673	396,201
Future	3,056	3,054
	375,729	399,255
Net income for the year	798,565	659,322
Retained earnings - Beginning of year	1,374,395	715,073
Retained earnings - End of year	\$ 2,172,960	\$ 1,374,395
Earnings per share:		
Basic	\$ 0.34	\$ 0.29
Diluted	\$ 0.34	\$ 0.28
Weighted average number of shares outstanding:		
Basic	2,351,626	2,295,736
Diluted	2,365,121	2,380,987

The accompanying notes are an integral part of these financial statements

JEMTEC INC.

Statements of Cash Flows

For the years ended July 31,

2008 2007

	2008	2007
Cash flows from (used in) operating activities		
Net income for the year	\$ 798,565	\$ 659,322
Adjustments to reconcile net income to net cash used in operating activities:		
- amortization	101,754	97,313
- stock-based compensation	-	55,074
- future income taxes	3,056	3,054
- write-off of accrued liability (note 9(b))	(77,193)	0
Changes in non-cash working capital:		
- accounts receivable	(212,380)	(20,897)
- prepaid expenses	(12,043)	792
- accounts payable and accrued liabilities	139,037	69,309
- deferred revenue	(23,515)	3,838
- income taxes payable	(49,848)	(98,894)
Cash flows - operating activities	667,433	768,911
Cash flows (used in) investing activities		
Payment to shareholders (note 9(b))	(762)	(1,225)
Purchase of equipment	(13,293)	(15,685)
Cash flows - investing activities	(14,055)	(16,910)
Cash flows (used in) financing activities		
Proceeds from exercise of options	20,500	-
Payment on capital lease obligation	(79,605)	(74,375)
Cash flows - financing activities	(59,105)	(74,375)
Net increase in cash and cash equivalents	594,273	677,626
Cash and cash equivalents, beginning of year	2,786,723	2,109,097
Cash and cash equivalents, end of year	\$ 3,380,996	\$ 2,786,723

The accompanying notes are an integral part of these financial statements

Supplemental cash disclosures

Cash paid for:

Income taxes	\$ 362,722	\$ 497,867
Interest	\$ 13,267	\$ 25,877

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.

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.

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 recommendation 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 approximates 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 two major customers during the fiscal year ended July 31, 2008, which contributed approximately 87% of revenue (2007 – 94%). Refer to note 10.

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, 2008, the Company had cash balances on deposit that exceeded federally insured limits by \$3,274,357 (2007- \$2,678,788). 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.

4. Changes in Accounting Policies

Effective August 1, 2007, the Company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") under CICA Handbook Section 1530 "Comprehensive Income" ("Section 1530"), Section 3251 "Equity", Section 3855 "Financial Instruments – Recognition and Measurement" ("Section 3855"), Section 3861 "Financial Instruments – Disclosure and Presentation" and Section 3865 "Hedges". These new sections, which apply to fiscal years beginning on or after October 1, 2006, provide requirements for the recognition and measurement of financial instruments and on the use of hedge accounting. Section 1530 establishes standards for reporting and presenting comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income but that are excluded from net income calculated in accordance with Canadian generally accepted accounting principles.

Under Section 3855, all financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: (1) held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; (2) available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired; and (3) all derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sale normal purchase exemption and changes in their fair value are recorded in income unless cash flow hedge accounting is used, in which case changes in fair value are recorded in other comprehensive income.

As a result of the adoption of these new standards, the Company has classified its cash and restricted cash as held-for-trading. Receivables are classified as loans and receivables. Accounts payable and accrued liabilities, are classified as other financial liabilities, all of which are measured at amortized cost.

Section 3855 also provides guidance on accounting for transaction costs incurred upon the issuance of debt instruments or modification of a financial liability. Transaction costs are now deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

There was no adjustment to opening balances as a result of the adoption of these standards.

5. Recent Accounting Pronouncements

a) Assessing Going Concern

The Accounting Standards Board ("AcSB") amended CICA Handbook Section 1400, to include requirements for management to assess and disclose an entity's ability to continue as a going concern. This section applies to interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

5. Recent Accounting Pronouncements (continued)

b) Financial Instruments

The AcSB issued CICA Handbook Section 3862, *Financial Instruments - Disclosures*, which requires entities to provide disclosures in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. The principles in this section complement the principles for recognizing, measuring and presenting financial assets and financial liabilities in Section 3855, *Financial Instruments - Recognition and Measurement*, Section 3863, *Financial Instruments - Presentation*, and Section 3865, *Hedges*. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The AcSB issued CICA Handbook Section 3863, *Financial Instruments - Presentation*, which is to enhance financial statement users' understanding of the significance of financial instruments to an entity's financial position, performance and cash flows. This section establishes standards for presentation of financial instruments and nonfinancial derivatives. It deals with the classification of financial instruments, from the perspective of the issuer, between liabilities and equity, the classification of related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

c) Capital Disclosures

The AcSB issued CICA Handbook Section 1535, which establishes standards for disclosing information about an entity's capital and how it is managed. This section applies to interim and annual financial statements relating to fiscal years beginning on or after October 1, 2007.

The Company is currently assessing the impact of the above new accounting standards on its financial statements.

d) International Financial Reporting Standards ("IFRS")

In 2006, the AcSB published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time.

6. Equipment

	July 31, 2008			July 31, 2007		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 46,222	\$ 38,150	\$ 8,072	\$ 40,351	\$ 36,132	\$ 4,219
Monitoring equipment	480,285	380,708	99,577	472,863	280,972	191,891
	<u>\$ 526,507</u>	<u>\$ 418,858</u>	<u>\$ 107,649</u>	<u>\$ 513,214</u>	<u>\$ 317,104</u>	<u>\$ 196,110</u>

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6. Equipment (continued)

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (2007 - \$373,100) and a net book value of \$95,910 (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 could be required.

7. Capital Lease Obligation

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

	Principal	Imputed Interest	Total
Year ending July 31, 2009	82,039	2,954	84,993
Less: amounts representing interest (8%)			(2,954)
Present value of minimum lease payments			82,039
Less: current portion			(82,039)
			\$ -

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

8. Bank Credit Facility and Loan Agreement

The Company has arranged an unutilized term operating loan which is available to a maximum amount of \$75,000. The loan, if utilized, would be due on demand, would bear interest at bank prime plus 1.3% per annum and would be secured by a general security agreement over all of the assets of the Company.

9. 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

9. Share Capital (continued)

b) Issued and allotted

	Number of Common Shares	Amount
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 July 31, 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 July 31, 2007 \$77,955 remain 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 were deemed to be surrendered to the Company. Accordingly, on May 1, 2008, the Company wrote-off \$77,193 for previously accrued amounts due to shareholders that did not redeem their certificates.

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.

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9. Share Capital (continued)
c) Options (continued)

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

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding, July 31, 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, July 31, 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 year ended July 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 year ended July 31, 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 July 31, 2008 are as follows:

	# of Options Granted	Expiry	Exercise Price	<u>Options Outstanding and Vested</u>		
				Number Outstanding and Vested as at July 31, 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>	1.90	\$ 1.10
	<u>280,000</u>			<u>199,048</u>	1.90 years	<u>\$ 1.10</u>

10. Economic Dependence

The Company had net sales to two major customers during the fiscal year ended July 31, 2008, which contributed approximately 87% of revenue (2007 – 94%).

One of the two major customers contributed approximately 82% of total revenue in the year ended July 31, 2008 (2007 - 87%). While the contract with this customer ended in January 2008, it has been extended to November 30, 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 November 30, 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.

The Company is a Canadian distributor of Pro-Tech Monitoring, Inc.'s ("Pro-Tech") and the exclusive Canadian distributor of BI Inc.'s (both 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 and BI Inc. for the continued supply of monitoring equipment, replacement parts, and maintenance services provided by Pro-Tech and BI Inc. for resale or rental by the Company.

11. Related Party Balances and Transactions

During the year ended July 31, 2008, \$90,000 (2007 - \$61,000) 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, 2008, \$90,000 (2007 - \$51,000) is due to the President and is included in accounts payable and accrued liabilities.

During the year ended July 31, 2008, \$55,167 (2007 - \$51,500) was paid to the directors of the Company as directors' fees.

During the year ended July 31, 2008, \$39,999 (2007 - \$23,226) was paid to an officer of the Company for accounting fees. As at July 31, 2008, a total of \$3,504 (2007 - \$nil) is owing and is included in accounts payable and accrued liabilities.

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

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12. 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>2008</u>	<u>2007</u>
Net income before taxes	\$ 1,097,101	\$ 1,058,577
Income taxes at federal and provincial statutory rates of 33% (2007 - 35%)	362,043	370,502
Increase (decrease) by the effect of		
Non-deductible items	4,378	28,479
Other	9,308	274
Income tax expense	<u>\$ 375,729</u>	<u>\$ 399,255</u>

Future tax assets of the Company are as follows:

	<u>2008</u>	<u>2007</u>
Excess of accounting over capital cost allowance	\$ 28,148	\$ 31,204
	<u>\$ 28,148</u>	<u>\$ 31,204</u>

As at July 31, 2008 and 2007, the Company believes that it is more likely than not that the excess capital cost allowance pools available of \$85,250 (2007 - \$89,153) for tax purposes will be utilized in the future. Thus, no valuation allowance has been recorded as at July 31, 2008 and 2007, and a future tax asset representing the sum of the tax amortization pools over net book values available for application against future taxable income was recorded.

13. Earnings per Share

The following table shows the effect of dilutive securities on the weighted average common share outstanding.

	Year Ended July 31,	
	2008	2007
	Number of shares	
Basic weighted average shares outstanding	2,351,626	2,295,736
Effect of dilutive securities:		
Options	<u>13,495</u>	<u>85,251</u>
Diluted weighted average shares outstanding	<u>2,365,121</u>	<u>2,380,987</u>