

JEMTEC INC.

Management Discussion and Analysis

October 31, 2008

This Management Discussion and Analysis of JEMTEC Inc. (“JEMTEC” or the “Company”) provides analysis of JEMTEC’s financial results for the fiscal period ended October 31, 2008. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements as at October 31, 2008. This discussion is meant to be an update of the Management Discussion and Analysis for the fiscal year ended July 31, 2008, dated November 28, 2008 and does not necessarily repeat information that has not significantly changed since the audited annual financial statements were issued.

The item numbering in this discussion refers to the numbering and headings as per the Form 51-102F1. Inapplicable items have been omitted.

This discussion includes statements about the Company’s expectations for the future. The Company’s management team believes that these expectations are reasonable; however, actual outcomes may differ materially from these expectations due to changes in operating performance, unexpected competition and other technical, market and economic factors.

Item 1. Date: December 22, 2008

This management discussion and analysis, dated December 22, 2008, is to accompany the financial statements of the Company for the fiscal quarter ended October 31, 2008.

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 October 31,		
	2008	2007	2006
Revenue	\$ 867,306	\$ 742,964	\$ 700,496
Expenses	544,302	441,644	460,030
Net income before income taxes	323,004	301,320	240,466
Income tax expense	41,276	107,387	110,561
Net income for the period	<u>\$ 281,728</u>	<u>\$ 193,933</u>	<u>\$ 129,905</u>
Earnings per share			
Basic	<u>\$ 0.12</u>	<u>\$ 0.08</u>	<u>\$ 0.06</u>
Diluted	<u>\$ 0.12</u>	<u>\$ 0.08</u>	<u>\$ 0.05</u>

Item 4 and 5. Results of Operations, Quarterly Results

The unaudited financial statements for the quarters ended October 31, 2008 and 2007 present the financial results of our operations, financings and investments for the fiscal quarters then ended.

Unaudited summarized information for the last eight quarters:

	Quarters Ended							
	October 31 2008	July 31 2008	April 30 2008	January 31 2008	October 31 2007	July 31 2007	April 30 2007	January 31 2007
Revenue	\$ 867,306	\$ 842,425	\$ 843,898	\$ 843,116	\$ 742,964	\$ 733,530	\$ 716,339	\$ 728,423
Expenses	544,302	547,717	550,110	558,638	441,644	485,317	474,039	400,742
Net income before taxes	\$ 323,004	\$ 294,708	\$ 293,788	\$ 284,478	\$ 301,320	\$ 248,213	\$ 242,300	\$ 327,681
Provision for taxes	41,276	67,896	101,276	99,170	107,387	77,969	93,659	117,066
Net income	\$ 281,728	\$ 226,812	\$ 192,512	\$ 185,308	\$ 193,933	\$ 170,244	\$ 148,641	\$ 210,615
Basic earnings per share	\$ 0.12	\$ 0.10	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.07	\$ 0.06	\$ 0.09

Revenues from the Company's contracts have gradually increased over the previous 8 quarters due to the larger number of clients being monitored. In addition, the Company started to earn revenues on new contracts, as follows:

- Quarter ended January 31, 2008: Revenues from new contract with the Province of Nova Scotia;
- Quarter ended April 30, 2008: Revenues from a new contract with the Province of Manitoba;
- Quarter ended October 31, 2008: Revenues from a new contract with Correctional Services Canada.

Revenues

During the three month period ended October 31, 2008, the Company continued to earn revenues on its main contracts, in addition to earning revenues on a new contract. Overall revenues have increased by 17% for the three month period ended October 31, 2008 as compared to the three month period ended October 31, 2007.

	Quarters Ended October 31,		
	2008	2007	2006
Revenue			
Leasing, monitoring and activation	\$ 846,043	\$ 701,675	\$ 665,492
Bail	580	12,165	20,548
Interest income	20,683	29,124	14,456
Total revenue	\$ 867,306	\$ 742,964	\$ 700,496

Until November 30, 2008, the Company derived substantially all of its revenue (89% during the year ended July 31, 2008 and 94% during the year ended July 31, 2007) from two customers, of which one customer, the OMCSGS, contributed approximately 82% of revenue during fiscal year ended July 31, 2008, 87% of revenue during the 2007 fiscal year and 90% during the 2006 fiscal year.

The five year contract with the OMCSGS ended in January 2008, but was extended to November 30, 2008 under the same terms and conditions. The 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, Correctional Services Canada and on its bail clients. The Company anticipates that, starting December 1, 2008, the loss of this contract will result in revenues being reduced by approximately \$600,000 to approximately \$220,000 per quarter. The Company also

anticipates recording a loss of approximately \$100,000 per quarter starting December 1, 2008, excluding expenses incurred in connection to a potential acquisition or business combination and any revenues or expenses resulting from an expansion of the Company's business or acquisition program.

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 rented the monitoring equipment provided to the OMCSCS from BI. Upon the termination of the agreement, the equipment has been returned to BI. The servers utilized to service the OMCSCS were acquired under a lease agreement and have been depreciated over the life of the contract agreement and have been disposed of for nominal value.

Expenses

Revenues for the three month period October 31, 2008 increased by 17% compared to the same period in 2007, and expenses increased by 23%. Expenses related to operations increased as there were 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 quarter ended October 31, 2008 compared to the quarter ended October 31, 2007. Additional costs were also incurred in relation to the start of a new contract with Correctional Services Canada.

Category	Changes – Fiscal 2008 Compared to 2007
Accounting and administrative	Increase: Increase in hourly consulting fee paid to CFO of the Company.
Amortization	Decrease: Equipment related to the OMCSCC contract has been fully amortized.
Consulting fees	Increase: Greater activity related to new service agreement.
Directors' fees	Decrease: One less director and less activity resulting in fewer meetings.
Monitoring and activation fees / Equipment rent and installation	Increase: Greater number of clients being monitored in Ontario, plus additional contracts with Nova Scotia, Manitoba and Correctional Services Canada.
Interest on capital leases	Decrease: One of the two leases was repaid.
Office	Decrease: Additional costs incurred in telecommunication services required to service our growing client base were offset by a gain in foreign exchange.
Professional fees	Increase: Higher audit costs and greater activity related to new service agreement.
Repairs and maintenance	Increase: Higher number of units requiring repairs due to start-up of new agreement.
Salaries and benefits	Increase: Higher compensation.
Shareholder communications	Increase: Higher costs related to new services offered by from transfer agent.
Travel	Decrease: Less travel related to operations. Focus is now on pursuing potential local business acquisitions.

Net earnings

For the three month period ended October 31, 2008, net income was \$281,728 as compared to \$193,933 in the same period of 2007, a 45% increase in net income quarter to quarter. Net earnings for the quarter ended October 31, 2008 have increased as compared to the net earnings for the same period in 2007 due to:

- a reduction of \$66,111 in tax provision as the Company anticipates losses in the third and fourth quarters of its fiscal year ended July 31, 2009;
- additional revenues earned from the service contracts with Nova Scotia, Manitoba and Correctional Services Canada, offset by the increase in the monitoring and activation fees associated with these contracts.

Item 6 and 7. Liquidity and Capital Resources**Liquidity**

At October 31, 2008, the Company had cash and cash equivalent net of \$3,667,126 and a working capital of \$3,824,436. All cash and cash equivalents are on deposit with a Schedule A bank in Canada, in interest accruing accounts.

Financial Position

	As at October 31, 2008	As at July 31, 2008
Current assets	\$ 4,308,944	\$ 4,120,199
Equipment	88,522	107,649
Other assets	27,384	28,148
Total assets	<u>\$ 4,424,850</u>	<u>\$ 4,255,996</u>
Current liabilities	\$ 484,508	\$ 597,382
Total liabilities	<u>\$ 484,508</u>	<u>\$ 597,382</u>
Stockholders' equity	<u>\$ 3,940,342</u>	<u>\$ 3,658,614</u>
Working capital	<u>\$ 3,824,436</u>	<u>\$ 3,522,817</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 or decrease as sales volumes change. Deferred revenue will continue to fluctuate in relation to the Company's private bail project. Private bail clients typically pay in advance for one or more years monitoring.

The Company's operating cash flows were \$309,023 during the three month period ended October 31, 2008 as compared to \$196,091 in the same period of 2007. The increase in cash flows from operations is principally due higher net income and fluctuations in accounts receivable, accounts payable and income taxes payable.

Cash flow used in investing activities for the three month period ended October 31, 2008 and 2007 relate to the purchase of equipment.

During the three month period ended October 31, 2008, the Company's financing activities consisted of \$20,815 (2007 - \$19,368) related to payments on capital lease obligations.

During the year ended July 31, 2005, the Company leased and acquired property and equipment to provide the required 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, \$89,375 during the year ended July 31, 2007, \$88,951 during the year ended July 31, 2008 and another \$22,238 and has a remaining \$62,753 owing on this lease. The lease will be paid in full in March 2009.

As detailed in Items 4 and 5, until November 30, 2008, the Company derived substantially all of its revenue (82% for the year ended July 31, 2008) from its contract with OMCSCS. The five year contract with this customer ended in January 2008, but was extended to November 30, 2008 under the same terms and conditions. The 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's current financial position and working capital is sufficient to fund operations while acquisitions and other service contracts are pursued. The Company will continue to earn revenues on its agreements with the Province of Saskatchewan, the Province of Nova Scotia, the Province of Manitoba, Correctional Services Canada and on its bail clients. The Company anticipates that, starting December 1, 2008, the loss of this contract will result in revenues being reduced by approximately \$600,000 to approximately \$220,000 per quarter. The Company also anticipates recording a loss of approximately \$100,000 per quarter starting December 1, 2008, excluding expenses incurred in connection to a potential acquisition or business combination and any revenues or expenses resulting from an expansion of the Company's business or acquisition program.

The Company is actively pursuing other new service agreements as well as new 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 three month period ended October 31, 2008, \$87,750 (2007 - \$51,000) was 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. The \$87,750 bonus was accounted for in accounts payable and accrued liabilities at July 31, 2008.

During the three month period ended October 31, 2008, \$7,500 (2007 - \$14,500) was accrued or paid to the directors of the Company as directors' fees.

During the three month period ended October 31, 2008, \$5,800 (2007 - \$5,476) 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 14. Financial Instruments and Other Instruments

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash. At October 31, 2008, the Company had cash balances that exceeded the federally insured limits by \$3,561,632. 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 following are outstanding at December 22, 2008:

Common shares	2,395,736
Shares issuable on the exercise of outstanding stock options	171,429
Shares available for future stock option grants	299,759

The fixed 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.

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 quarter ended October 31, 2008, that would have materially effected the Company's internal controls over financial reporting.

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("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, and the Company's first full year of reporting under IFRS will be its fiscal year ended July 31, 2012. While the Company has begun assessing the adoption of IFRS for 2011 and started planning for the conversion of its accounting policies from Canadian GAAP to IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company anticipates that it will utilize existing personnel and resources to manage the change to IFRS.

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