

JEMTEC INC.

Interim Financial Statements October 31, 2008

Notice to Reader:

The accompanying interim financial statements of JEMTEC Inc. for the three month period ended October 31, 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

October 31, 2008

July 31, 2008

ASSETS

Current

Cash and cash equivalents	\$ 3,667,126	\$ 3,380,996
Accounts receivable	613,382	706,427
Prepaid expenses and deposits	28,436	32,776

Total current assets 4,308,944 4,120,199

Equipment (note 4) 88,522 107,649

Future income taxes 27,384 28,148

Total assets \$ 4,424,850 \$ 4,255,996

LIABILITIES

Current

Accounts payable and accrued liabilities	\$ 473,305	\$ 497,118
Deferred revenue	-	8,246
Capital lease obligation (note 5)	61,224	82,039
Income taxes payable	(50,021)	9,979

Total current liabilities 484,508 597,382

SHAREHOLDERS' EQUITY

Share capital (note 7)	1,235,750	1,235,750
Contributed surplus	249,904	249,904
Retained earnings	2,454,688	2,172,960

Total shareholders' equity 3,940,342 3,658,614

Total liabilities and shareholders' equity \$ 4,424,850 \$ 4,255,996

The accompanying notes are an integral part of these unaudited 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 three month periods
ended October 31,

2008 2007

	2008	2007
Revenue		
Leasing, monitoring and activation (note 7)	\$ 846,623	\$ 713,840
Interest income	20,683	29,124
	867,306	742,964
Expenses		
Accounting and administrative fees	8,595	5,476
Amortization	21,205	27,158
Consulting fees	41,600	37,428
Directors' fees	7,500	14,500
Equipment rent and installation	115,408	63,822
Interest on capital leases	1,425	2,869
Monitoring and activation fees	231,883	138,123
Office	21,484	61,422
Professional fees	12,698	10,425
Repairs and maintenance	8,112	3,608
Salaries and benefits	61,062	58,851
Shareholder communications	3,764	2,910
Travel	9,566	15,052
	544,302	441,644
Income before income taxes	323,004	301,320
Income tax expense		
Current	40,512	106,623
Future	764	764
	41,276	107,387
Net income for the period	281,728	193,933
Retained earnings - Beginning of period	2,172,960	1,374,395
Retained earnings - End of period	\$ 2,454,688	\$ 1,568,328

Earnings per share:

Basic	\$ 0.12	\$ 0.08
Diluted	\$ 0.12	\$ 0.08

Weighted average number of shares outstanding:

Basic	2,395,736	2,295,736
Diluted	2,395,736	2,373,068

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

JEMTEC INC.

Statement of Shareholders' Equity

	Common Shares		Contributed	Earnings	Total
	Shares	Amount	Surplus		Shareholders' Equity
Balance, July 31, 2007	2,295,736	\$ 1,215,250	\$ 249,904	\$ 1,374,395	\$ 2,839,549
Shares issued for stock options exercised	100,000	20,500	-	-	20,500
Net earnings for the year	-	-	-	798,565	798,565
Balance, July 31, 2008	2,395,736	\$ 1,235,750	\$ 249,904	\$ 2,172,960	\$ 3,658,614
Net earnings for the period	-	-	-	281,728	281,728
Balance, October 31, 2008	2,395,736	\$ 1,235,750	\$ 249,904	\$ 2,454,688	\$ 3,940,342

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

JEMTEC INC.

Statements of Cash Flows

For the three month periods
ended October 31,

2008 2007

	2008	2007
Cash flows from (used in) operating activities		
Net income for the year	\$ 281,728	\$ 193,933
Adjustments to reconcile net income to net cash used in operating activities:		
- amortization	21,205	27,157
- future income taxes	764	764
Changes in non-cash working capital:		
- accounts receivable	93,045	(38,524)
- prepaid expenses	4,340	3,678
- accounts payable and accrued liabilities	(23,813)	4,717
- deferred revenue	(8,246)	(11,851)
- income taxes payable	(60,000)	16,217
Cash flows - operating activities	309,023	196,091
Cash flows (used in) investing activities		
Purchase of equipment	(2,078)	(4,917)
Cash flows - investing activities	(2,078)	(4,917)
Cash flows (used in) financing activities		
Payment on capital lease obligation	(20,815)	(19,368)
Cash flows - financing activities	(20,815)	(19,368)
Net increase in cash and cash equivalents	286,130	171,806
Cash and cash equivalents, beginning of period	3,380,996	2,786,723
Cash and cash equivalents, end of period	\$ 3,667,126	\$ 2,958,529

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

Supplemental cash disclosures

Cash paid for:

Income taxes	\$ 100,512	\$ 90,406
Interest	\$ 1,425	\$ 2,869

JEMTEC INC.
Notes to Interim Financial Statements
October 31, 2008

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. Basis of Presentation and Adoption of New Accounting Policies

These interim financial statements have been prepared in accordance with accounting principles generally accepted in Canada. They do not include all information and disclosures required for annual financial statements and therefore should be read in conjunction with the audited financial statements of the Company for the year ended July 31, 2008.

The accounting policies followed by the Company are set out in note 2 to the audited financial statements for the year ended July 31, 2008, and have been consistently followed in the preparation of these interim financial statements.

3. Equipment

	October 31, 2008			July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 48,300	\$ 38,656	\$ 9,644	\$ 46,222	\$ 38,150	\$ 8,072
Monitoring equipment	480,285	401,407	78,878	480,285	380,708	99,577
	<u>\$ 528,585</u>	<u>\$ 440,063</u>	<u>\$ 88,522</u>	<u>\$ 526,507</u>	<u>\$ 418,858</u>	<u>\$ 107,649</u>

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (July 31, 2008 - \$373,100) and a net book value of \$77,255 (July 31, 2008 - \$95,910).

The Company amortizes its monitoring equipment over its estimated useful life as described in note 2 of the Company's audited financial statement for the year ended July 31, 2008. 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.

4. Capital Lease Obligation

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

	Principal	Imputed Interest	Total
Year ending July 31, 2009	61,224	1,529	62,753
Less: amounts representing interest (8%)			(1,529)
Present value of minimum lease payments and current lease obligation			<u>\$ 61,224</u>

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

5. 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.

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

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 and October 31, 2008	<u><u>2,395,736</u></u>	<u><u>\$ 1,235,750</u></u>

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.

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, 2007	<u>299,048</u>	\$ 0.80
Exercised	<u>(100,000)</u>	\$ 0.21
Outstanding, July 31, 2008	<u>199,048</u>	\$ 1.10
Cancelled	<u>(27,619)</u>	\$ 1.10
Outstanding, October 31, 2008	<u><u>171,429</u></u>	\$ 1.10

JEMTEC INC.
Notes to Interim Financial Statements
October 31, 2008

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.

During the quarter ended October 31, 2008, the Company cancelled 27,619 options that had been granted to a former director.

Options outstanding at October 31, 2008 are as follows:

	# of Options Granted	Expiry	Exercise Price	Options Outstanding and Vested		
				Number Outstanding and Vested as at October 31, 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Granted, June 9, 2005	<u>280,000</u>	23-Jun-10	\$ 1.10	171,429	1.64	\$ 1.10
	<u>280,000</u>			171,429	1.64 years	\$ 1.10

7. Economic Dependence

The Company had revenues from leasing, monitoring and activation of \$846,623 during the three month period ended October 31, 2008, with one customer contributing approximately 77% of this revenue during the quarter ended October 31, 2008 (2007 - 88%). While the contract with this customer ended in January 2008, it 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 Provinces of Saskatchewan, Nova Scotia and Manitoba, Correctional Services Canada and on private 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 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.

8. Related Party Balances and Transactions

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.

JEMTEC INC.
Notes to Interim Financial Statements
October 31, 2008

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.

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>October 31, 2008</u>	<u>October 31, 2007</u>
Net income before taxes	\$ 323,004	\$ 301,320
Income taxes at federal and provincial statutory rates of 33% (2007 - 35%)	106,591	105,462
Increase (decrease) by the effect of		
Non-deductible items	-	1,925
Other	(65,315)	-
Income tax expense	<u>\$ 41,276</u>	<u>\$ 107,387</u>

Future tax assets of the Company are as follows:

	<u>October 31, 2008</u>	<u>July 31, 2008</u>
Excess of accounting over capital cost allowance	\$ 27,384	\$ 28,148
	<u>\$ 27,384</u>	<u>\$ 28,148</u>

10. Earnings per Share

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

	Three month period ended October 31,	
	2008	2007
	Number of shares	
Basic weighted average shares outstanding	2,395,736	2,295,736
Effect of dilutive securities:		
Options	-	77,332
Diluted weighted average shares outstanding	<u>2,395,736</u>	<u>2,373,068</u>