

JEMTEC^{INC.}



Security solutions for a safer community

2008 Annual Report

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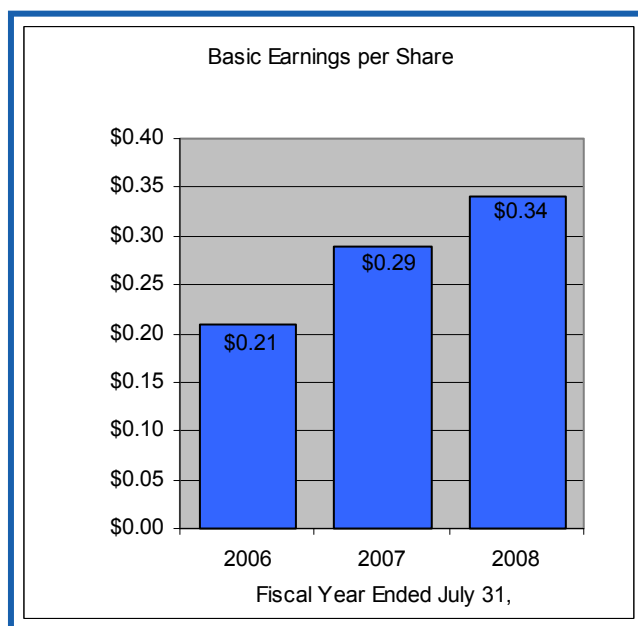
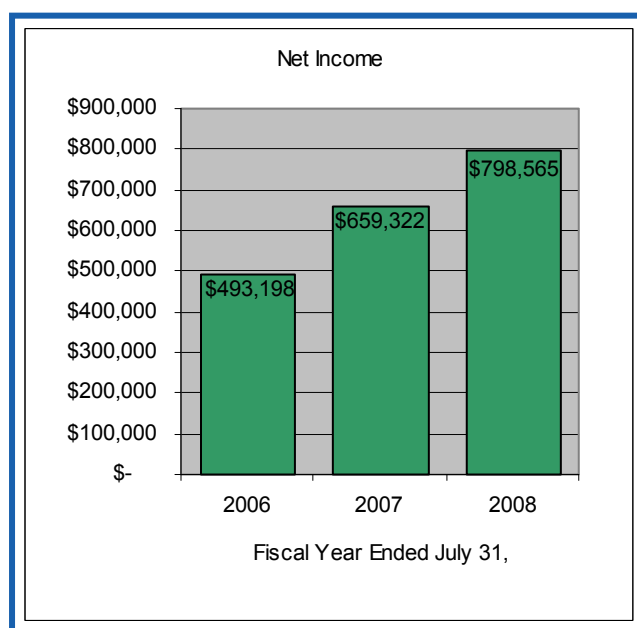
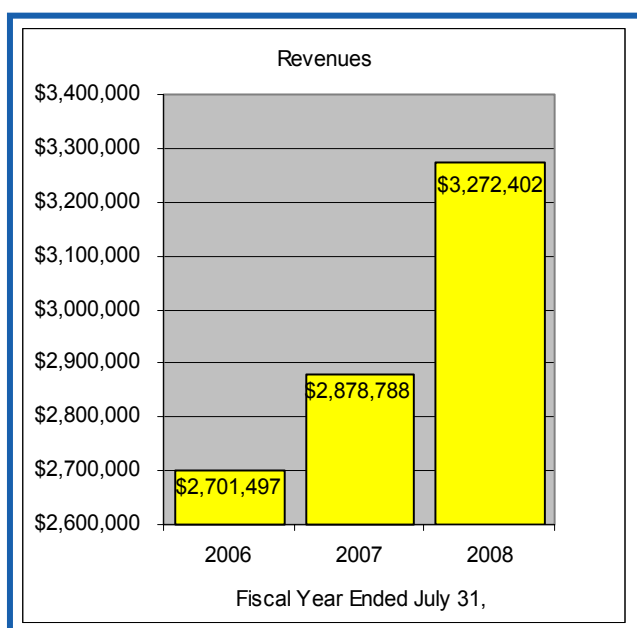


JEMTECINC.
Community-Based Corrections Technology

Financial Highlights

We present below select annual information from the Company's financial statements, prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

	Years Ended July 31,		
	2008	2007	2006
Financial Strength			
Net Profit Margin	25%	24%	19%
Current Ratio	6.90	5.44	4.13
Quick Ratio	6.84	5.40	4.10
Debt to Equity Ratio	0.16	0.24	0.37



Business Description

JEMTEC Inc. (“Company” or “JEMTEC”) owns and operates security related businesses related to monitoring post and pre-trial clients. The Company specializes in global positioning systems, electronic monitoring, alcohol detection and voice verification technologies as they relate to location verification of offenders and individuals under restrictions in the community. The Company operates two different units: a monitoring facility in Ontario which allows the Company to offer flexible solutions on short notice for rental of monitoring technologies to courts, police, and immigration anywhere in Canada and; a leasing unit, which distributes global positioning, electronic monitoring technology, alcohol detection and voice verification to provincial and federal corrections agencies in Canada.

Investments Highlights

- **Increased Revenues** - During the fiscal year ended July 31, 2008, the Company continued to earn revenue on its main contracts but also gained ground with GPS monitoring in Nova Scotia, Manitoba and in with Correctional Service Canada in Ontario, but also on pre-trial clients. Overall revenues have increased by 14% in fiscal 2008 as compared to 2007.
- **Net Earnings** - For the year, ended July 31, 2008 net earnings were \$798,565 or \$0.34 per common share, versus \$659,322, or \$0.29 per share for the 2007 fiscal year. This change in net earnings is attributable to increased revenues due to three new projects coming on line, and a onetime accrual write off in relation to the consolidation of the Company’s shares pursuant to a special resolution passed by shareholders on April 21, 2006.
- **Liquidity** - The Company had cash and cash equivalents of 3,380,996 as of July 31, 2008 as compared to \$2,786,723 as of July 31, 2007, an increase of \$594,273. The Company has a working capital of \$3,522,817 as of July 31, 2008 compared to working capital of \$2,694,273 at July 31, 2007.
- **Dominant Supplier** - The Company has become the dominant provider of global positioning system (“GPS”) devices for offender monitoring services and technology in Canada by recognizing that its customers needed differently designed solutions to their unique problems. The Company does not try to fit each customer to its products, but rather designs a different solution for each customer using a variety of common building blocks. Further, the Company has very little overhead to cover and using only contracts the required workers for a given solution, enabling to control costs and using this pricing as a key competitive advantage.
- **Public Private Partnerships** - The Company is the first Canadian provider of these security products to share risk with a government agency in a P3 relationship. These unique relationships entail risks which are rewarded downstream as can be seen in our financial results. In order to meet the exacting needs of a P3 the Company partners with established, “best of breed”, equipment and service providers to bring a proven solution to the table. Being a successful P3 provider is another competitive advantage.
- **24/7 Monitoring Capability** - Located in the Greater Toronto Area, JEMTEC has an offender monitoring centre (“OMC”) able to respond to alerts and alarms generated by Offenders. This asset gives the Company an important competitive advantage clearly differentiating JEMTEC from a simple “supplier of units” and allows the Company to increase revenue by offering additional services through the OMC with little or no added cost.

History

JEMTEC Inc. has been in business for over 25 years. JEMTEC has been leasing monitoring services to Canadian correctional agencies to supervise offenders continuously for 20 years. All Canadian electronic monitoring programs operational today were started by the Company. JEMTEC was incorporated in 1981 as a federal corporation named 113396 Canada Limited operating as Peregrine Controls ("Peregrine"). The first product was an electronic control for lumber drying kilns. In 1984, the Company began development of remote monitoring systems. In June 1987, a subsidiary Company was incorporated with the name Justice Electronic Monitoring Systems Limited ("JEMTEC"). This company, controlled by Peregrine, acquired exclusive manufacturing and marketing rights to the home incarceration products manufactured by BI Inc. ("BI") of Boulder, Colorado. On February 5, 1989, JEMTEC, Peregrine and Tritex Petroleum Corporation amalgamated, emerging as Peregrine Instruments and Monitoring Inc. under the provisions of the Business Corporations Act, 1982 (Ontario). Tritex was a natural resources company with approximately 1,900 shareholders located mostly in Toronto. On September 15, 1989, Peregrine sold off its other businesses of lumber drying kilns and remote current monitoring along with the rights to the name Peregrine in order to concentrate solely on the home incarceration market. The name of the company changed back to Justice Electronic Monitoring Systems Inc. and was shortened to JEMTEC Inc.

Below is a chronology of JEMTEC's most important contracts:

- JEMTEC won the first ever contract for home incarceration products in Canada, installing a BI system for the B.C. Ministry of the Attorney General in September 1987;
- In December 1989, JEMTEC won the Saskatchewan contract for the six months Pilot Program;
- In February, JEMTEC won the expanded B.C. contract for 75 units and in March 1991 this was increased to 95 units;
- In November 1991, JEMTEC won the B.C. contract to supply equipment to the interior regions of B.C.;
- In September 1993, JEMTEC was awarded a 200 units contract by B.C. for a period of 2.5 years;
- In November 1995, JEMTEC won the contract to provide Ontario with 200 units over five years;
- In October 1996, JEMTEC won a contract for 400 units over five years with BC Corrections;
- In October 1997, JEMTEC was awarded a 30 unit contract by Newfoundland for a period of 5 years;
- In February 1998, JEMTEC won a 150 unit contract with Saskatchewan for 5 years;
- In September 2002, JEMTEC won a 5 year P3 contract with Ontario Ministry of Community Safety and Correctional Service ("OMCSCS") for a of minimum 650 offenders per day;
- In April 2004, JEMTEC began its Private Bail Monitoring program;
- In September 2007, JEMTEC began offering Voice Verification in Nova Scotia;
- In November 2007, JEMTEC began offering Global Positioning, Electronic Monitoring in Nova Scotia;
- In April 2008, JEMTEC began offering Global Positioning, Electronic Monitoring in Manitoba; and
- In September 2008, JEMTEC began offering Global Positioning, Electronic Monitoring in Ontario with Correctional Services Canada.

JEMTEC's five year contract with OMCSCS ended on November 30, 2008. The decision by the OMCSCS to discontinue the use of the Company's services will adversely affect the Company's operating results. Refer to notes 3(a) and 10 of the Company audited financial statements for the year ended July 31, 2008, and items 2, 4, 5, 6 and 7 of the Company's Management Discussion and Analysis for the year ended July 31, 2008.

Business Strategy

JEMTEC will continue to build on the experience and trust it has earned in the Canadian Corrections market; however the Company sees the need to expand beyond its present markets and the borders of Canada. JEMTEC is actively looking to target suitable complementary acquisitions in the security market to support of its stated goal of becoming a dominant player in security market and the offender monitoring sector. As such the Company is looking for collaborative relationships for product expansion that would focus on the development of new opportunities, to leverage off the Company's existing products, services, relationships and that would include a broader array of products and services in allied fields.

These activities are being pursued concurrently with the exploration of geographically dispersed collaborative relationships. JEMTEC's goal is expanding operations, through strategic alliance and agency relationships, in jurisdictions beyond Canada. Once new commercial relationships and alliances solidify, we believe it would be appropriate to undertake a number of activities to improve share capital liquidity and increase the shareholder base.

JEMTEC's Success Formula



Experience

JEMTEC pioneered electronically monitored house arrest in Canada and has been diversifying system and service offerings ever since. JEMTEC installed the first house arrest system in Canada in 1987 and every province or territory since has asked JEMTEC to provide our expertise when designing their first house arrest system. To date, criminal justice agencies throughout Canada have supervised more than forty thousand offenders and pretrial defendants with the help of JEMTEC's products and services.



Partnerships

JEMTEC seeks out Best of breed partners on a project by project basis to ensure we deliver on time, on target and on budget. We use Service Level Agreements to ensure our partners keep their commitments and meet their timelines. Dealing with the best is always a competitive advantage.



Value

JEMTEC is continually improving and expanding its suite of products and services, based on evolving agency needs and emerging technology using a variety of building blocks. JEMTEC offers immediate, round-the-clock support and rapid resolution of monitoring and equipment issues, single point of contact for program support and customized officer training, responsive customer service, and an absolute commitment to each agency's program.



Technology

JEMTEC's customer-centered product development process is backed by best of breed manufacturers using advanced technical capabilities. JEMTEC involves the selected manufacturer engineers, manufactures, tests, markets, and supports all of its electronic monitoring products and services for the life of the contract offsetting JEMTEC's risk and ensuring customer satisfaction.



Support

Best of breed support personnel and systems deliver the industry's highest level of customer service and program support. Technical Support Specialists meet customer needs with in-depth knowledge of each monitoring environment used on the selected equipment and systems.



Reliability

Every product and service is designed and operated with mission-critical reliability, ease-of-use, and accuracy in mind, reducing officer risk, enhancing public safety, saving agencies time and effort, and enabling officers to focus on offender supervision. ISO certified processes, forward-thinking design, comprehensive testing, and technical expertise.

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

"Morgan & Company"

November 26, 2008

Chartered Accountants

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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
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

Notes to Financial Statements

July 31, 2008 and 2007

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. Change 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, 2007			July 31, 2006		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 40,351	\$ 36,132	\$ 4,219	\$ 40,351	\$ 35,170	\$ 5,181
Monitoring equipment	472,863	280,972	191,891	457,178	181,037	276,141
	<u>\$ 513,214</u>	<u>\$ 317,104</u>	<u>\$ 196,110</u>	<u>\$ 497,529</u>	<u>\$ 216,207</u>	<u>\$ 281,322</u>

6. Equipment (continued)

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (2006 - \$373,100) and a net book value of \$170,530 (2006 - \$248,733).

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.

9. Share Capital (continued)
c) Options (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, 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	Options Outstanding and Vested		
				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	\$ 1.10

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.

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>

JEMTEC INC.

Management Discussion and Analysis July 31, 2008

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, 2008. 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, 2008.

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 28, 2008

This management discussion and analysis, dated November 28, 2008, is to accompany the financial statements of the Company for the fiscal year ended July 31, 2008.

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 of 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. (“Pro-Tech”) and Omnilink Systems Inc. (“Omnilink”), and the exclusive Canadian distributor of BI Inc.’s (“BI”) (all U.S. companies) offender monitoring and tracking devices. The sales and leasing from these suppliers account for substantially for all of the Company’s revenues, capital asset additions and replacement parts purchased. The Company is economically dependent on Pro-Tech, Omnilink and BI for the continued supply of monitoring equipment and replacement parts, and maintenance services provided by Pro-Tech, Omnilink and BI 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 1 to 5 years.

JEMTEC’s five year contract with the Ontario Ministry of Community Safety and Correctional Service (“OMCSCS”) ended in January 2008, but was 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, 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 other expenses incurred to expand the Company's current customer base. Refer to Items 4, 5, 6 and 7.

The Company is actively pursuing other business opportunities such as acquisitions and partnerships to help offset the loss of the Ontario contract.

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,		
	2008	2007	2006
Revenue	\$ 3,272,402	\$ 2,878,788	\$ 2,701,497
Expenses	2,098,108	1,820,211	1,833,223
Net income before income taxes	1,174,294	1,058,577	868,274
Income tax expense	375,729	399,255	375,076
Net income for the period	\$ 798,565	\$ 659,322	\$ 493,198
Earnings per share			
Basic	\$ 0.34	\$ 0.29	\$ 0.21
Diluted	\$ 0.34	\$ 0.28	\$ 0.20

Item 4 and 5. Results of Operations, Quarterly Results

The audited financial statements for the years ended July 31, 2008 and 2007 present the financial results of our operations, financings and investments for the fiscal years then ended.

Unaudited summarized information for the last eight quarters:

	Quarters Ended							
	July 31 2008	April 30 2008	January 31 2008	October 31 2007	July 31 2007	April 30 2007	January 31 2007	October 31 2006
Revenue	\$ 842,425	\$ 843,898	\$ 843,116	\$ 742,963	\$ 733,530	\$ 716,339	\$ 728,423	\$ 700,496
Expenses	547,717	550,110	558,638	441,643	485,317	474,039	400,742	460,113
Net income before taxes	\$ 294,708	\$ 293,788	\$ 284,478	\$ 301,320	\$ 248,213	\$ 242,300	\$ 327,681	\$ 240,383
Provision for taxes	67,896	101,276	99,170	107,387	77,969	93,659	117,066	110,561
Net income	\$ 226,812	\$ 192,512	\$ 185,308	\$ 193,933	\$ 170,244	\$ 148,641	\$ 210,615	\$ 129,822
Basic earnings per share	\$ 0.10	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.07	\$ 0.06	\$ 0.09	\$ 0.06

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, during the quarter ended January 31, 2008, the Company started to earn revenues on a new contract with the Province of Nova Scotia, and during the quarter ended April 30, 2008, the Company began earning revenues on a new contract with the Province of Manitoba.

Revenues

During the fiscal year ended July 31, 2008, the Company continued to earn revenues on an increasing number of clients being monitored on its main contracts, in addition to earning revenues on private bail projects and on new contracts. Overall revenues have increased by 14% for fiscal 2008 as compared to the fiscal year ended 2007.

	Years Ended July 31,		
	2008	2007	2006
Revenue			
Leasing, monitoring and activation	\$ 3,116,047	\$ 2,697,538	\$ 2,595,535
Bail	53,945	91,189	50,151
Interest income	102,410	90,061	55,811
Total revenue	\$ 3,272,402	\$ 2,878,788	\$ 2,701,497

Until October 31, 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 OMCSCS, 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 OMCSCS ended in January 2008, but was extended to November 30, 2008 under the same terms and conditions. In November 2007, the Company presented a competitive proposal to this client as part of its request for proposals for a new agreement. In March 2008, the Company was informed that it was not the successful bidder. 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 other expenses incurred to expand the Company's current customer base.

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, without further costs, 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 year ended July 31, 2008 increased by 14% compared to the same period in 2007, and expenses increased by 15%. Increased costs were incurred in all areas except repairs and maintenance, equipment rent and installation, interest on capital leases, other interest expenses and stock based compensation. 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 year ended July 31, 2008 compared to the year ended July 31, 2007. Some of the increases in these costs have been mitigated by the strengthening of the Canadian dollar in 2008 as compared to 2007 as the Company rents its equipment from U.S. suppliers. Furthermore, additional costs were incurred related to the Company actively pursuing other new service agreements as well as new business opportunities such as acquisitions and partnerships.

Category	Changes – Fiscal 2008 Compared to 2007
Salaries and benefits	Increase: Higher compensation.
Amortization	Increase: Additional equipment related to the new projects being amortized.
Repairs and maintenance	Decrease: Reduction in number of units requiring repairs due to improved customer training.
Monitoring and activation fees / Equipment rent and installation	Increase: Greater number of clients being monitored in Ontario, Nova Scotia and Manitoba.
Consulting fees	Increase: Greater activity related to potential acquisitions.
Travel	Increase: Additional travel related to pursuing potential business acquisitions.
Shareholder communications	Increase: Greater activity related to new service agreement and extension of the current Ontario agreement.
Professional fees	Increase: Greater activity related to potential acquisitions and new service agreements.
Office	Increase: Additional telecommunication services required to service our growing client base.
Interest on capital leases	Decrease: Expenses reduced as one of the two leases was repaid.
Other interest expenses	Decrease: Corporate taxes payable for fiscal 2008 are being paid by installments, and therefore amount of interest expenses has been reduced in 2008.
Stock-based compensation	Decrease: All options granted in fiscal 2005 have vested, and certain options were cancelled.
Directors' fees	Increase: Greater activity related to potential acquisitions.
Accounting and administrative	Increase: Greater activity related to potential acquisitions.

Net earnings

For the year ended July 31, 2008, net income was \$798,565 as compared to \$659,322 in the same periods of 2007, a 21% increase in net income year to year. Net earnings for the year ended July 31, 2008 have increased as compared to the net earnings for the same period in 2007 due to a \$77,193 one time reversal of previously accrued amounts due to shareholders that did not redeem their certificates following share consolidation on May 1, 2006, and the additional revenues earned from the service contracts with Nova Scotia and Manitoba.

Item 6 and 7. Liquidity and Capital Resources

Liquidity

At July 31, 2008, the Company had cash and cash equivalent net of \$3,380,996 and a working capital of \$3,522,817. All cash and cash equivalents are on deposit with a Schedule A bank in Canada, in interest accruing accounts.

Financial Position

	As at July 31, 2008	As at July 31, 2007
Current assets	\$ 4,120,199	\$ 3,301,503
Equipment	107,649	196,110
Other assets	28,148	31,204
Total assets	<u>\$ 4,255,996</u>	<u>\$ 3,528,817</u>
Current liabilities	\$ 597,382	\$ 607,230
Capital lease obligation	-	82,038
Total liabilities	<u>\$ 597,382</u>	<u>\$ 689,268</u>
Stockholders' equity	<u>\$ 3,658,614</u>	<u>\$ 2,839,549</u>
Working capital	<u>\$ 3,522,817</u>	<u>\$ 2,694,273</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 \$667,433 during the year ended July 31, 2008 as compared to \$768,911 in the same period of 2007. The decrease in cash flows from operations is principally due to fluctuations in accounts receivable, accounts payable and income taxes payable.

Cash flow used in investing activities for the year ended July 31, 2008 and 2007 relate to the purchase of equipment and the payment to shareholders in relation to the share consolidation.

During the year ended July 31, 2008, the Company's financing activities consisted of \$79,605 (2007 - \$74,375) related to payments on capital lease obligations offset by \$20,500 (2007 - \$nil) in proceeds from the exercise of stock options.

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 and another \$88,951 during the nine month period ended April 30, 2008, and has a remaining \$84,993 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. In November 2007, the Company presented a competitive proposal to this client as part of its request for proposals for a new agreement. In March 2008, the Company was informed that it was not the successful bidder in this client's electronic monitoring request for proposal process. 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 other expenses incurred to expand the Company's current customer base.

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 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.

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.

Item 10. Fourth Quarter

JEMTEC INC.

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

	2008	2007
Revenue		
Leasing, monitoring and activation	\$ 820,877	\$ 701,292
Interest income	21,548	32,238
	842,425	733,530
Expenses		
Accounting and administrative fees	44,231	5,961
Amortization	21,318	26,924
Consulting fees	49,650	35,239
Directors' fees	10,667	12,500
Equipment rent and installation	92,193	64,140
Interest on capital leases	1,796	3,214
Monitoring and activation fees	197,348	144,836
Office	41,968	66,095
Other interest expenses	60	5,391
Professional fees	36,666	9,590
Repairs and maintenance	3,520	6,701
Salaries and benefits	109,026	88,995
Shareholder communications	2,040	4,592
Stock-based compensation	-	-
Travel	14,427	11,139
	624,910	485,317
Income before other item	217,515	248,213
Other item		
Write-off of accrued liability	77,193	-
Income before income taxes	294,708	248,213
Income tax expense		
Current	67,132	80,681
Future	764	(2,712)
	67,896	77,969
Net income for the period	226,812	170,244
Retained earnings - Beginning of period	1,946,148	1,204,151
Retained earnings - End of period	\$ 2,172,960	\$ 1,374,395

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 years ended July 31, 2008 and 2007 for more information concerning the accounting principles used in the preparation of the Company's financial statements.

Item 13. Changes in Accounting Policies including Initial Adoption

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.

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

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.

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

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 standard on its financial statements.

d) **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.

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 July 31, 2008, the Company had cash balances that exceeded the federally insured limits by \$3,274,357. 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 November 28, 2008:

Common shares	2,395,736
Shares issuable on the exercise of outstanding stock options	199,048
Shares available for future stock option grants	272,140

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. 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.

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. 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 reversed \$77,193 for previously accrued amounts due to shareholders that did not redeem their certificates.

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

JEMTEC's Board Members

Jeremy Kendall

Jeremy Kendall has served as Chairman of the Company since December 1985. He is also Chairman of the Board of SunOpta (1/83 to present) a manufacturer and distributor of organic foods and other products. As well, he is Director and Chairman of Opta Minerals and Chairman of Easton Minerals Ltd. (1/95 to present), mineral exploration companies. Mr. Kendall has also served on the following Boards of Directors: BI Inc. (9/81 to 11/00), producer of electronic home incarceration products; Brigdon Resources Inc. (6/93 to 2/99), oil and gas exploration company; and Wisper Inc. (6/95 to 3/02), a provider of wireless electronic equipment and services. Mr. Kendall is also a Director of a number of private and charitable organizations.

Eric Caton

Eric Caton, President & CEO of the Company has served as a Director since February 1991. He joined JEMTEC in 1987 as Vice President Sales, then as General Manager and now President and CEO. He has also served on the Board of Easton Minerals Ltd. (1/95 to 3/05). He led JEMTEC's successful Public Private Partnership (P3) with the government of Ontario, the first such partnership in Canada. He has designed and started Electronic Monitoring Home Incarceration Programs across Canada (starting in 1987) with British Columbia, Ontario, Newfoundland, Saskatchewan and the Yukon Territories. Prior thereto, Mr. Caton marketed hardware and service products for Control Data Canada from 1972 through 1987.

Leslie N. Markow

Leslie N. Markow is a CA, and CPA (Illinois) and has been a Director and Corporate Secretary at the Company since January 1994. She is also the Director of Client Services Global Professionals Inc., which is a Nasdaq listed, project-based professional services firm. Ms. Markow was a senior officer, CFO and assistant corporate secretary from 1991-2002 at SunOpta Inc., a Nasdaq/TSX listed company that principally manufactures and distributes organic products. She is the 2007-2008 President and a member of the Board of Directors, Toronto chapter of the Financial Executives International.

Cyril Ing

Cyril Ing is a retired Professional Engineer and was elected a Director in April 2000. He was an independent consultant specializing in engineering projects involving the combustion of biomass from May 1982 to August 1985. Mr. Ing retired from full time employment in March 1990. For the 10 years prior to retirement, he was President of the Conat Group, a holding company whose major subsidiary, Westair Systems Inc., is a distributor and manufacturer of industrial dehumidification equipment. Mr. Ing has also served on the following Boards of Directors: SunOpta (1/84 to present); Wisper Inc. (11/99 to present); and Easton Minerals Ltd. (11/99 to present).

Gordon Baker

Gordon Baker was elected a Director of the Company in January 1994. He is a lawyer and was appointed Queen's Counsel in 1983. Mr. Baker has extensive experience in the area of business law with emphasis on mergers and acquisitions, joint ventures, financing and structuring. He is Former Chairman, Tax Subsection, Ontario Branch Canadian Bar Association; a Member of Canadian Bar Association, Ontario, Committee on Taxation; Past Committee Member of Ontario Institute of Chartered Accountants and Canadian Bar Association, Ontario; Committee on Taxation. Mr. Baker also serves on committees and boards of a number of political and social organizations.

Corporate Information

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Copies of the Company's financial statements and MD&A may be obtained from the System for Electronic Document Analysis and Retrieval (SEDAR) www.sedar.com

By mail: JEMTEC Inc., Suite 200, 38 Fell Avenue, North Vancouver, B C, V7P 3S2 or
By telephone: 877-929-4559 or
By fax: 877-929-4198 or
By e-mail: info@jemtec.ca.

Transfer Agent

Computershare Trust Company of Canada

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Morgan & Company Chartered Accountants

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Sui & Company, Solicitors

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