

**JEMTEC INC.**

**Management Discussion and Analysis**

**January 31, 2009**

***This Management Discussion and Analysis of JEMTEC Inc. (“JEMTEC” or the “Company”) provides analysis of JEMTEC’s financial results for the fiscal period ended January 31, 2009. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements as at January 31, 2009. This discussion is meant to be an update of the Management Discussion and Analysis for the fiscal year ended July 31, 2008, dated November 28, 2008 and does not necessarily repeat information that has not significantly changed since the audited annual financial statements were issued.***

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

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

**Item 1.           Date: March 30, 2009**

This management discussion and analysis, dated March 30, 2009, accompanies the financial statements of the Company for the three and six month periods ended January 31, 2009.

**Item 3.           Annual Information**

We have summarized selected information from the Company’s financial statements, which are prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

	Three month periods ended January 31,			Six month periods ended January 31,		
	2009	2008	2007	2009	2008	2007
Revenue	\$ 426,342	\$ 843,116	\$ 728,423	\$ 1,293,648	\$ 1,586,079	\$ 1,428,919
Expenses	383,219	558,638	400,742	927,521	1,000,281	860,855
Net income before income taxes	43,123	284,478	327,681	366,127	585,798	568,064
Income tax expense	56,883	99,170	117,066	98,159	206,557	227,627
Net income for the period	\$ (13,760)	\$ 185,308	\$ 210,615	\$ 267,968	\$ 379,241	\$ 340,437
Earnings per share						
Basic	\$ (0.01)	\$ 0.08	\$ 0.09	\$ 0.11	\$ 0.16	\$ 0.15
Diluted	\$ (0.01)	\$ 0.08	\$ 0.09	\$ 0.11	\$ 0.16	\$ 0.14

#### Item 4 and 5. Results of Operations, Quarterly Results

The unaudited financial statements for the quarters ended January 31, 2009 and 2008 present the financial results of our operations, financings and investments for the fiscal quarters then ended.

Unaudited summarized information for the last eight quarters:

	Quarters Ended							
	January 31 2009	October 31 2008	July 31 2008	April 30 2008	January 31 2008	October 31 2007	July 31 2007	April 30 2007
Revenue	\$ 426,342	\$ 867,306	\$ 842,425	\$ 843,898	\$ 843,116	\$ 742,964	\$ 733,530	\$ 716,339
Expenses	383,219	544,302	547,717	550,110	558,638	441,644	485,317	474,039
Net income before taxes	\$ 43,123	\$ 323,004	\$ 294,708	\$ 293,788	\$ 284,478	\$ 301,320	\$ 248,213	\$ 242,300
Provision for taxes	56,883	41,276	67,896	101,276	99,170	107,387	77,969	93,659
<b>Net income</b>	<b>\$ (13,760)</b>	<b>\$ 281,728</b>	<b>\$ 226,812</b>	<b>\$ 192,512</b>	<b>\$ 185,308</b>	<b>\$ 193,933</b>	<b>\$ 170,244</b>	<b>\$ 148,641</b>
Basic earnings per share	\$ (0.01)	\$ 0.12	\$ 0.10	\$ 0.08	\$ 0.08	\$ 0.08	\$ 0.07	\$ 0.06

Over the last few quarters, the Company started to earn revenues on new contracts, as follows:

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

In the quarter ended April 30, 2009, the Company will start to earn revenues on a new contract with the Province of Newfoundland.

#### Revenues

The Company had revenues from leasing, monitoring and activation of \$1,259,794 during the six month period ended January 31, 2009, with one customer, the Ontario Ministry of Community Safety and Correctional Service ("OMCSCS", or "Ontario") contributing approximately 67% (2008 – 84%). The contract with the OMCSCS ended on November 30, 2008. The decision by this customer to discontinue the use of the Company's services after November 30, 2008 has adversely affected the Company's operating results for the three month period ended January 31, 2009.

	Quarters Ended January 31,		
	2009	2008	2007
<b>Revenue</b>			
Leasing, monitoring and activation	\$ 396,839	\$ 800,729	\$ 692,772
Bail	16,742	14,520	14,546
Interest income	12,761	27,867	21,105
<b>Total revenue</b>	<b>\$ 426,342</b>	<b>\$ 843,116</b>	<b>\$ 728,423</b>

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. In addition, in February 2009, the Company commenced to earn revenues on a new agreement with the Province of Newfoundland.

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 acquired monitoring equipment for servicing its new agreement with the Province of Newfoundland. This equipment will be depreciated over the life of the contract agreement, starting February 2009, and will have nominal residual value at the end of the three year period.

### Expenses

Revenues for the three month period January 31, 2009 decreased by 49% compared to the same period in 2008, and expenses by 31% principally due to the completion of the Ontario contract. Additional costs were incurred in the wind down of the agreement, and to the start of new contracts with Correctional Services Canada and the Province of Newfoundland.

Category	Changes – Fiscal 2009 Compared to 2008
Accounting and administrative	Decrease: reduction in total expenses due to the refund of fees for an audit related an unsuccessful acquisition during the fiscal year ended July 31, 2008.
Amortization	Decrease: Equipment related to the Ontario contract has been fully amortized.
Consulting fees	Decrease: Less use of consultants.
Directors' fees	Decrease: One less director and less activity resulting in fewer meetings.
Monitoring and activation fees / Equipment rent and installation	Decrease: Agreement with Ontario was completed in November 2008.
Interest on capital leases	Decrease: One of the two leases was repaid.
Office	Decrease: Smaller client base following the completion of the Ontario agreement.
Professional fees	Decrease: Less activity related to new service agreements.
Repairs and maintenance	Decrease: Fewer numbers of units requiring repairs.
Salaries and benefits	Decrease: Lower compensation due to reduction in business.
Shareholder communications	Decrease: More effective communications strategy.
Travel	Decrease: Less travel related to operations. Focus is now on pursuing potential local business acquisitions.

### Net earnings

For the three month period ended January 31, 2009, the Company had net losses of \$13,760 as compared to a net income of \$185,308 in the same period of 2008. Net earnings for the quarter ended January 31, 2009 have decreased due to:

- The completion in November 2008 of the 5 year agreement with Ontario;
- With reduction in revenues there was offset with the reduction in operating expenses related to the Ontario contract, as well as a reduction in general and administrative expenses and a corresponding reduction in tax provision.

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

At January 31, 2009, the Company had cash and cash equivalent net of \$3,884,786 and a working capital of \$3,666,116. All cash and cash equivalents are on deposit with a Schedule A bank in Canada, in interest accruing accounts.

**Financial Position**

	As at January 31, 2009	As at July 31, 2008
Current assets	\$ 4,085,336	\$ 4,120,199
Equipment	233,846	107,649
Other assets	26,620	28,148
Total assets	<u>\$ 4,345,802</u>	<u>\$ 4,255,996</u>
Current liabilities	\$ 419,220	\$ 597,382
Total liabilities	<u>\$ 419,220</u>	<u>\$ 597,382</u>
Stockholders' equity	<u>\$ 3,926,582</u>	<u>\$ 3,658,614</u>
Working capital	<u>\$ 3,666,116</u>	<u>\$ 3,522,817</u>

Significant working capital components include cash in current or interest bearing accounts, accounts receivable from clients, prepaid expenses, accounts payable and accrued liabilities, income taxes payable and the current portion of deferred revenues and capital leases.

Accounts receivable and accounts payable are expected to increase or decrease as sales volumes change. Deferred revenue will continue to fluctuate in relation to the Company's private bail project. Private bail clients typically pay in advance for one or more years monitoring.

The Company's operating cash flows were \$712,551 during the six month period ended January 31, 2009 as compared to \$267,501 in the same period of 2008. The increase in cash flows from operations is principally due to the fluctuations of accounts receivable.

Cash flow used in investing activities for the six month periods ended January 31, 2009 and 2008 relate to the purchase of equipment.

During the six month period ended January 31, 2009, the Company's financing activities consisted of \$42,009 (2008 - \$39,087) related to payments on capital lease obligations. During the six month period January 31, 2008, the Company received \$20,500 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, \$88,951 during the year ended July 31, 2008 and another \$44,476 during the six month period ended January 31, 2009, and has a remaining \$40,030 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 Ontario. The decision by this customer to discontinue the use of the Company's services after November 30, 2008 has adversely affected the Company's operating results for the three month period ended January 31, 2009.

The Company anticipates that the loss of the Ontario contract will result in revenues being reduced by approximately \$600,000 to approximately \$220,000 per quarter, starting February 1, 2009. The Company also anticipates recording a loss of approximately \$100,000 per quarter, 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 will continue to earn revenues on its agreements with the Provinces of Saskatchewan, Nova Scotia and Manitoba, Correctional Services Canada and on private bail, and, in February 2009, the Company commenced to earn revenues on a new agreement with the Province of Newfoundland.

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 six month period ended January 31, 2009, \$87,750 (2008 - \$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 six month period ended January 31, 2009, \$26,500 (2008 - \$30,500) was accrued or paid to the directors of the Company as directors' fees.

During the six month period ended January 31, 2009, \$20,825 (2008 - \$13,568) was paid to an officer of the Company for accounting fees.

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

### **Item 14. Financial Instruments and Other Instruments**

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. The Company has not experienced any losses and believes it is not exposed to any significant credit risk from cash. At January 31, 2009, the Company had cash balances that exceeded the federally insured limits by \$3,781,764. 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 March 30, 2009:

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

The fixed stock option plan permits the directors of the Company to grant incentive options to the employees, directors, officers and consultants of the Company. The maximum number of shares issuable under the stock option plan is 471,188.

**Disclosure Controls and Procedures**

The Company has implemented a system of internal controls that it believes adequately protects the assets of the Company and is appropriate for the nature of its business and the size of its operations. These internal controls include disclosure controls and procedures designed to ensure that information required to be disclosed by the Company is accumulated and communicated as appropriate to allow timely decisions regarding required disclosure. However the Company has a limited number of staff and as such is heavily dependant on the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) which results in an inherent weakness in the system of internal controls due to an inability to achieve appropriate segregation of duties. The Board of Directors' review of financial reporting is utilized to mitigate the risk of material misstatement in financial reporting. There have been no significant changes to the Company's internal control environment during the quarter ended January 31, 2009 that would materially change the Company's internal controls over financial reporting.

**International Financial Reporting Standards ("IFRS")**

In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended July 31, 2011, and the Company's first full year of reporting under IFRS will be its fiscal year ended July 31, 2012. While the Company has begun assessing the adoption of IFRS for 2011 and started planning for the conversion of its accounting policies from Canadian GAAP to IFRS, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company anticipates that it will utilize existing personnel and resources to manage the change to IFRS.

**Other Information**

Additional information relating to the Company is available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.JEMTEC.ca](http://www.JEMTEC.ca)