

JEMTEC INC.

Interim Financial Statements January 31, 2009

Notice to Reader:

The accompanying interim financial statements of JEMTEC Inc. for the three and six month periods ended January 31, 2009 have been prepared by and are the responsibility of the Company's management. These statements are unaudited and have not been reviewed by independent auditors

JEMTEC INC.

Balance Sheets

January 31, 2009

July 31, 2008

ASSETS

Current

Cash and cash equivalents	\$ 3,884,786	\$ 3,380,996
Accounts receivable	181,342	706,427
Prepaid expenses and deposits	19,208	32,776
Total current assets	4,085,336	4,120,199
Equipment (note 3)	233,846	107,649
Future income taxes (note 9)	26,620	28,148
Total assets	\$ 4,345,802	\$ 4,255,996

LIABILITIES

Current

Accounts payable and accrued liabilities	\$ 408,190	\$ 497,118
Deferred revenue	11,000	8,246
Capital lease obligation (note 4)	40,030	82,039
Income taxes payable	(40,000)	9,979
Total current liabilities	419,220	597,382

SHAREHOLDERS' EQUITY

Share capital (note 6)	1,235,750	1,235,750
Contributed surplus	249,904	249,904
Retained earnings	2,440,928	2,172,960
Total shareholders' equity	3,926,582	3,658,614
Total liabilities and shareholders' equity	\$ 4,345,802	\$ 4,255,996

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

Approved on behalf of the Board of Directors:

"Eric Caton"
Director

"Leslie Markow"
Director

JEMTEC INC.**Statements of Operations and Retained Earnings**

	For the three month periods ended January 31,		For the six month periods ended January 31,	
	2009	2008	2009	2008
Revenue				
Leasing, monitoring and activation (note 7)	\$ 413,171	\$ 815,249	\$ 1,259,794	\$ 1,529,089
Interest income	13,171	27,867	33,854	56,990
	426,342	843,116	1,293,648	1,586,079
Expenses				
Accounting and administrative fees	(361)	8,091	8,234	13,568
Amortization	19,350	29,039	40,555	56,198
Consulting fees	39,500	38,478	81,100	75,906
Directors' fees	19,000	16,000	26,500	30,500
Equipment rent and installation	81,757	53,119	197,165	116,941
Interest on capital leases	1,044	2,518	2,468	5,388
Monitoring and activation fees	93,367	194,780	325,250	324,407
Office	37,905	38,466	59,391	108,382
Other interest expenses	129	2,990	129	2,990
Professional fees	12,757	24,900	25,455	35,325
Repairs and maintenance	5,486	6,871	13,598	10,479
Salaries and benefits	62,416	113,238	123,478	172,088
Shareholder communications	5,990	14,921	9,754	17,831
Travel	4,879	15,227	14,444	30,278
	383,219	558,638	927,521	1,000,281
Income before income taxes	43,123	284,478	366,127	585,798
Income tax expense (note 9)				
Current	56,119	98,406	96,631	205,029
Future	764	764	1,528	1,528
	56,883	99,170	98,159	206,557
Net income (loss) for the period	(13,760)	185,308	267,968	379,241
Retained earnings - Beginning of period	2,454,688	1,568,328	2,172,960	1,374,395
Retained earnings - End of period	\$ 2,440,928	\$ 1,753,636	\$ 2,440,928	\$ 1,753,636
Earnings per share:				
Basic	\$ (0.01)	\$ 0.08	\$ 0.11	\$ 0.16
Diluted	\$ (0.01)	\$ 0.08	\$ 0.11	\$ 0.16
Weighted average number of shares outstanding:				
Basic	2,395,736	2,319,912	2,395,736	2,307,758
Diluted	2,395,736	2,336,499	2,395,736	2,334,402

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

JEMTEC INC.

Statement of Shareholders' Equity

	Common Shares		Contributed	Earnings	Total
	Shares	Amount	Surplus		Shareholders' Equity
Balance, July 31, 2007	2,295,736	\$ 1,215,250	\$ 249,904	\$ 1,374,395	\$ 2,839,549
Shares issued for stock options exercised	100,000	20,500	-	-	20,500
Net earnings for the year	-	-	-	798,565	798,565
Balance, July 31, 2008	2,395,736	\$ 1,235,750	\$ 249,904	\$ 2,172,960	\$ 3,658,614
Net earnings for the period	-	-	-	267,968	267,968
Balance, January 31, 2009	2,395,736	\$ 1,235,750	\$ 249,904	\$ 2,440,928	\$ 3,926,582

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

JEMTEC INC.

Statements of Cash Flows

	For the three month periods ended January 31,		For the six month periods ended January 31,	
	2009	2008	2009	2008
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ (13,760)	\$ 185,308	\$ 267,968	\$ 379,241
Adjustments to reconcile net income to net cash used in operating activities:				
- amortization	19,350	29,039	40,555	56,198
- future income taxes	764	764	1,528	1,528
Changes in non-cash working capital:				
- accounts receivable	432,040	(93,564)	525,085	(132,088)
- prepaid expenses	9,228	(8,845)	13,568	(5,167)
- accounts payable and accrued liabilities	(72,615)	(57,758)	(13,928)	(53,042)
- deferred revenue	11,000	(10,850)	2,754	(22,701)
- due to related parties	7,500	60,000	(75,000)	60,000
- income taxes payable	10,021	(32,685)	(49,979)	(16,468)
Cash flows - operating activities	403,528	71,409	712,551	267,501
Cash flows (used in) investing activities				
Purchase of equipment	(164,674)	(8,377)	(166,752)	(13,294)
Cash flows - investing activities	(164,674)	(8,377)	(166,752)	(13,294)
Cash flows from (used in) financing activities				
Proceeds from exercise of options	-	20,500	-	20,500
Payment on capital lease obligation	(21,194)	(19,719)	(42,009)	(39,087)
Cash flows - financing activities	(21,194)	781	(42,009)	(18,587)
Net increase in cash and cash equivalents	217,660	63,813	503,790	235,620
Cash and cash equivalents, beginning of period	3,667,126	2,958,530	3,380,996	2,786,723
Cash and cash equivalents, end of period	\$ 3,884,786	\$ 3,022,343	\$ 3,884,786	\$ 3,022,343

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

Supplemental cash disclosures

Cash paid for:

Income taxes	\$ 46,098	\$ 131,091	\$ 146,610	\$ 221,497
Interest	\$ 1,173	\$ 5,508	\$ 2,597	\$ 8,378

JEMTEC INC.
Notes to Interim Financial Statements
January 31, 2009

1. Nature of Operations

The Company's core business is the provision of services and technology for offender monitoring in Canadian federal and provincial correctional departments.

2. Basis of Presentation and Adoption of New Accounting Policies

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

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

3. Equipment

	January 31, 2009			July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 48,301	\$ 39,165	\$ 9,136	\$ 46,222	\$ 38,150	\$ 8,072
Monitoring equipment	644,958	420,248	224,710	480,285	380,708	99,577
	<u>\$ 693,259</u>	<u>\$ 459,413</u>	<u>\$ 233,846</u>	<u>\$ 526,507</u>	<u>\$ 418,858</u>	<u>\$ 107,649</u>

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (July 31, 2008 - \$373,100) and a net book value of \$58,600 (July 31, 2008 - \$95,910).

The Company amortizes its monitoring equipment over its estimated useful life as described in note 2 of the Company's audited financial statement for the year ended July 31, 2008. Such estimates are based on management's experience and expectations of the continued renewal of the contracts for which equipment is acquired or the use of existing equipment in new contracts. Advances in technology and other considerations could result in significant changes to the estimated lives of these assets or otherwise impact the ability of the Company to realize on existing monitoring equipment. In these circumstances, additional provisions could be required.

4. Capital Lease Obligation

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

	Principal	Imputed Interest	Total
Year ending July 31, 2009	40,030	485	40,515
Less: amounts representing interest (8%)			(485)
Present value of minimum lease payments and current lease obligation			<u>\$ 40,030</u>

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

5. Bank Credit Facility and Loan Agreement

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

6. Share Capital

a) Authorized

Common shares: Unlimited, no par value
 First preference shares: Unlimited, no par value, issuable in series
 Second preference shares: 25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend

b) Issued and allotted

	Number of Common Shares	Amount
Balance July 31, 2006 and 2007	2,295,736	\$ 1,215,250
Shares issued for exercise of stock options	<u>100,000</u>	<u>\$ 20,500</u>
Balance July 31, 2008 and January 31, 2009	<u><u>2,395,736</u></u>	<u><u>\$ 1,235,750</u></u>

c) Options

During the year ended July 31, 2003, the Company adopted a fixed stock option plan that permits the directors of the company to grant incentive stock options to employees, directors and consultants to the Company. The maximum number of shares issuable under the plan, which follows the policies of the TSX Venture Exchange ("TSXV") regarding stock option awards, was 414,332. In January 2006, the Company amended its stock option plan to increase the number of shares reserved for issuance under the plan to 471,188. Options granted under the plan vest in 6 equal installments over a period of 18 months, with the first installment vesting immediately, and the remaining options vesting upon 6, 9, 12, 15 and 18 months after the date of grant. The option exercise price is generally set as the market price at the time of grant; however, a discount from the market price is permitted under the plan, subject to the policies of the TSX Venture Exchange.

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

	Number of Options	Weighted Average Exercise Price
Outstanding, July 31, 2007	<u>299,048</u>	\$ 0.80
Exercised	<u>(100,000)</u>	\$ 0.21
Outstanding, July 31, 2008	<u>199,048</u>	\$ 1.10
Cancelled	<u>(27,619)</u>	\$ 1.10
Outstanding, January 31, 2009	<u><u>171,429</u></u>	\$ 1.10

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During the year ended July 31, 2008, the Company issued 100,000 shares of common stock pursuant to the exercise of 100,000 stock options, for net proceeds of \$20,500.

During the six month period ended January 31, 2009, the Company cancelled 27,619 options that had been granted to a former director.

Options outstanding at January 31, 2009 are as follows:

	# of Options Granted	Expiry	Exercise Price	Options Outstanding and Vested		
				Number Outstanding and Vested as at January 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Granted, June 9, 2005	<u>280,000</u>	23-Jun-10	\$ 1.10	171,429	1.39	\$ 1.10
	<u>280,000</u>			171,429	1.39 years	\$ 1.10

7. Economic Dependence

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 contributing approximately 67% (2008 – 84%). The contract with this customer 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.

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 clients. Effective February 1, 2009, the Company started to earn revenues from a new agreement with the Province of Newfoundland.

The Company is a Canadian distributor of Omnilink Systems Inc. (“Omnilink”), Pro-Tech Monitoring, Inc.’s (“Pro-Tech”) and the exclusive Canadian distributor of BI Inc.’s (all 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 Omnilink, Pro-Tech and BI Inc. for the continued supply of monitoring equipment, replacement parts, and maintenance services provided by Omnilink, Pro-Tech and BI Inc. for resale or rental by the Company.

8. Related Party Balances and Transactions

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 included in accounts payable and accrued liabilities at July 31, 2008.

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January 31, 2009

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 in the normal course of operations.

9. Taxes

A reconciliation of the combined federal and provincial income taxes at statutory rates and the Company's effective income tax expense is as follows:

	<u>January 31, 2009</u>	<u>January 31, 2008</u>
Net income before taxes	\$ 366,127	\$ 585,798
Income taxes at federal and provincial statutory rates of 33% (2007 - 35%)	120,822	205,029
Increase (decrease) by the effect of		
Non-deductible items	-	-
Other	(22,663)	1,528
Income tax expense	<u>\$ 98,159</u>	<u>\$ 206,557</u>

Future tax assets of the Company are as follows:

	<u>January 31, 2009</u>	<u>July 31, 2008</u>
Excess of accounting over capital cost allowance	\$ 26,620	\$ 28,148
	<u>\$ 26,620</u>	<u>\$ 28,148</u>

10. Earnings per Share

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

	<u>Three month period ended January 31, 2009</u>		<u>Six month period ended January 31, 2009</u>	
	2009	2008	2009	2008
	Number of shares		Number of shares	
Basic weighted average shares outstanding	2,395,736	2,319,912	2,395,736	2,307,758
Effect of dilutive securities:				
Options	-	16,587	-	26,644
Diluted weighted average shares outstanding	<u>2,395,736</u>	<u>2,336,499</u>	<u>2,395,736</u>	<u>2,334,402</u>