

JEMTEC INC.

Interim Financial Statements April 30, 2009

Notice to Reader:

The accompanying interim financial statements of JEMTEC Inc. for the three and nine month periods ended April 30, 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

	April 30, 2009	July 31, 2008
ASSETS		
Current		
Cash and cash equivalents	\$ 3,601,726	\$ 3,380,996
Accounts receivable	178,908	706,427
Prepaid expenses and deposits	15,694	32,776
Total current assets	3,796,328	4,120,199
Equipment (note 3)	209,922	107,649
Future income taxes (note 9)	25,856	28,148
Total assets	\$ 4,032,106	\$ 4,255,996
LIABILITIES		
Current		
Accounts payable and accrued liabilities	\$ 274,229	\$ 497,118
Deferred revenue	24,500	8,246
Capital lease obligation (note 4)	-	82,039
Income taxes payable	(105,000)	9,979
Total current liabilities	193,729	597,382
SHAREHOLDERS' EQUITY		
Share capital (note 6)	1,235,750	1,235,750
Contributed surplus	249,904	249,904
Retained earnings	2,352,723	2,172,960
Total shareholders' equity	3,838,377	3,658,614
Total liabilities and shareholders' equity	\$ 4,032,106	\$ 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 April 30,		For the nine month periods ended April 30,	
	2009	2008	2009	2008
Revenue				
Leasing, monitoring and activation (note 7)	\$ 263,979	\$ 820,028	\$ 1,524,183	\$ 2,349,117
Interest income	6,503	23,870	39,947	80,861
	270,482	843,898	1,564,130	2,429,978
Expenses				
Accounting and administrative fees	11,671	6,788	19,904	20,355
Amortization	23,924	24,238	64,480	80,435
Consulting fees	29,600	44,221	110,700	120,127
Directors' fees	11,500	14,000	38,000	44,500
Equipment rent and installation	43,041	60,196	240,205	263,336
Interest on capital leases	263	2,161	2,731	7,549
Monitoring and activation fees	165,101	252,985	490,352	491,193
Office	29,931	49,135	89,320	157,519
Other interest expenses	556	872	686	3,862
Professional fees	14,925	17,241	40,380	52,566
Repairs and maintenance	12,802	3,983	26,400	14,462
Salaries and benefits	61,817	59,111	185,295	231,200
Shareholder communications	7,916	7,180	17,670	25,011
Travel	7,955	7,999	22,400	38,277
	421,002	550,110	1,348,523	1,550,392
Income (loss) before income taxes	(150,520)	293,788	215,607	879,586
Income tax expense (recovery) (note 9)				
Current	(63,079)	100,512	33,552	305,541
Future	764	764	2,292	2,292
	(62,315)	101,276	35,844	307,833
Net income (loss) for the period	(88,205)	192,512	179,763	571,753
Retained earnings - Beginning of period	2,440,928	1,753,636	2,172,960	1,374,395
Retained earnings - End of period	\$ 2,352,723	\$ 1,946,148	\$ 2,352,723	\$ 1,946,148
Earnings per share:				
Basic	\$ (0.037)	\$ 0.080	\$ 0.075	\$ 0.245
Diluted	\$ (0.037)	\$ 0.080	\$ 0.075	\$ 0.243
Weighted average number of shares outstanding:				
Basic	2,395,736	2,395,736	2,395,736	2,336,762
Diluted	2,395,736	2,410,790	2,395,736	2,351,816

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	-	-	-	179,763	179,763
Balance, April 30, 2009	2,395,736	\$ 1,235,750	\$ 249,904	\$ 2,352,723	\$ 3,838,377

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

JEMTEC INC.**Statements of Cash Flows**

	For the three month periods ended April 30,		For the nine month periods ended April 30,	
	2009	2008	2009	2008
Cash flows from (used in) operating activities				
Net income (loss) for the period	\$ (88,205)	\$ 192,512	\$ 179,763	\$ 571,753
Adjustments to reconcile net income to net cash used in operating activities:				
- amortization	23,924	24,238	64,479	80,435
- future income taxes	764	764	2,292	2,292
Changes in non-cash working capital:				
- accounts receivable	2,434	35,964	527,519	(96,124)
- prepaid expenses	3,514	12,149	17,082	6,982
- accounts payable and accrued liabilities	(141,461)	89,455	(147,889)	36,772
- deferred revenue	13,500	(1,397)	16,254	(24,098)
- due to related parties	7,500	7,500	(75,000)	67,500
- income taxes payable	(65,000)	-	(114,979)	(16,468)
Cash flows - operating activities	(243,030)	361,185	469,521	629,044
Cash flows (used in) investing activities				
Deferred acquisition costs	-	(28,083)	-	(28,083)
Purchase of equipment	-	-	(166,752)	(13,294)
Cash flows - investing activities	-	(28,083)	(166,752)	(41,377)
Cash flows from (used in) financing activities				
Proceeds from exercise of options	-	-	-	20,500
Payment on capital lease obligation	(40,030)	(19,719)	(82,039)	(59,164)
Cash flows - financing activities	(40,030)	(19,719)	(82,039)	(38,664)
Net increase (decrease) in cash and cash equivalents	(283,060)	313,383	220,730	549,003
Cash and cash equivalents, beginning of period	3,884,786	3,022,343	3,380,996	2,786,723
Cash and cash equivalents, end of period	\$ 3,601,726	\$ 3,335,726	\$ 3,601,726	\$ 3,335,726

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

Supplemental cash disclosures**Cash paid for:**

Income taxes	\$ 1,921	\$ 100,512	\$ 148,531	\$ 322,009
Interest	\$ 819	\$ 9,132	\$ 3,417	\$ 11,411

JEMTEC INC.
Notes to Interim Financial Statements
April 30, 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

	April 30, 2009			July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 48,301	\$ 39,672	\$ 8,629	\$ 46,222	\$ 38,150	\$ 8,072
Monitoring equipment	644,958	443,666	201,292	480,285	380,708	99,577
	<u>\$ 693,259</u>	<u>\$ 483,338</u>	<u>\$ 209,921</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 \$39,945 (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

During the quarter ended April 30, 2009, the Company made its last payments on its capital lease.

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 April 30, 2009	<u>2,395,736</u>	<u>\$ 1,235,750</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, April 30, 2009	<u>171,429</u>	\$ 1.10

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 nine month period ended April 30, 2009, the Company cancelled 27,619 options that had been granted to a former director.

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April 30, 2009

Options outstanding at April 30, 2009 are as follows:

	# of Options Granted	Expiry	Exercise Price	Options Outstanding and Vested		
				Number Outstanding and Vested as at April 30, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
Granted, June 9, 2005	<u>280,000</u>	23-Jun-10	\$ 1.10	<u>171,429</u>	1.15	\$ 1.10
	<u>280,000</u>			<u>171,429</u>	1.15 years	\$ 1.10

7. Economic Dependence

The Company had revenues from leasing, monitoring and activation of \$1,524,183 during the nine month period ended April 30, 2009, with one customer contributing approximately 56% (2008 – 83%). 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 materially affected the Company’s operating results for the three and nine month periods ended April 30, 2009.

As anticipated, the expiry of the Ontario contract has resulted in revenues being reduced by approximately \$550,000 to approximately \$260,000 per quarter. The Company recorded a loss of approximately \$150,000 per quarter before tax recoveries. The Company expects to record operating losses of approximately \$150,000 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 continues 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. Subsequent to April 30, 2009, the Company has signed one year extensions with both the Province of Manitoba and the Province of Saskatchewan.

The Company is a Canadian distributor of Omnilink Systems Inc. (“Omnilink”), Pro-Tech Monitoring, Inc.’s (“Pro-Tech”) and the 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 nine month period ended April 30, 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.

During the nine month period ended April 30, 2009, \$38,000 (2008 - \$44,500) was accrued or paid to the directors of the Company as directors’ fees. During the nine month period ended April 30, 2009, \$28,988 (2008 - \$25,959) 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>April 30, 2009</u>	<u>April 30, 2008</u>
Net income before taxes	\$ 215,607	\$ 879,586
Income taxes at federal and provincial statutory rates of 33% (2008 - 35%)	71,150	307,855
Increase (decrease) by the effect of		
Non-deductible items	-	-
Other	(35,306)	(22)
Income tax expense	<u>\$ 35,844</u>	<u>\$ 307,833</u>

Future tax assets of the Company are as follows:

	<u>April 30, 2009</u>	<u>July 31, 2008</u>
Excess of accounting over capital cost allowance	\$ 25,856	\$ 28,148
	<u>\$ 25,856</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</u> <u>April 30,</u>		<u>Nine month period</u> <u>ended April 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	Number of shares		Number of shares	
Basic weighted average shares outstanding	2,395,736	2,395,736	2,395,736	2,336,762
Effect of dilutive securities:				
Options	-	15,054	-	15,054
Diluted weighted average shares outstanding	<u>2,395,736</u>	<u>2,410,790</u>	<u>2,395,736</u>	<u>2,351,816</u>