

JEMTEC INC.

Management Discussion and Analysis

July 31, 2009

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, 2009. 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, 2009.

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 27, 2009

This management discussion and analysis, dated November 27, 2009, accompanies the financial statements of the Company for the fiscal year ended July 31, 2009.

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 via telephone contact, 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. The decision by the OMCSCS to discontinue the use of the Company’s services after

November 30, 2008 has materially affected the Company's operating results for the year ended July 31, 2009.

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. The Company has signed one year extensions with both the Province of Manitoba and the Province of Saskatchewan.

The Company anticipates recording a loss of approximately \$100,000 per quarter during its fiscal year ending July 31, 2010, 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 business opportunities such as acquisitions and partnerships.

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.

	Years Ended July 31,		
	2009	2008	2007
Revenue	\$ 1,829,484	\$ 3,272,402	\$ 2,878,788
Expenses	1,665,949	2,098,108	1,820,211
Net income before income taxes	163,535	1,174,294	1,058,577
Income tax expense	53,772	375,729	399,255
Net income for the period	\$ 109,763	\$ 798,565	\$ 659,322
Earnings per share			
Basic	\$ 0.05	\$ 0.34	\$ 0.29
Diluted	\$ 0.05	\$ 0.34	\$ 0.28

Item 4 and 5. Results of Operations, Quarterly Results

The audited financial statements for the years ended July 31, 2009 and 2008 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 2009	April 30 2009	January 31 2009	October 31 2008	July 31 2008	April 30 2008	January 31 2008	October 31 2007
Revenue	\$ 265,354	\$ 270,482	\$ 426,342	\$ 867,306	\$ 842,424	\$ 843,898	\$ 843,116	\$ 742,964
Expenses	317,426	421,002	383,219	544,302	547,716	550,110	558,638	441,644
Net income (loss) before taxes	\$ (52,072)	\$ (150,520)	\$ 43,123	\$ 323,004	\$ 294,708	\$ 293,788	\$ 284,478	\$ 301,320
Provision for taxes (recovery)	17,928	(62,315)	56,883	41,276	67,896	101,276	99,170	107,387
Net income (loss)	\$ (70,000)	\$ (88,205)	\$ (13,760)	\$ 281,728	\$ 226,812	\$ 192,512	\$ 185,308	\$ 193,933
Basic earnings (loss) per share	\$ (0.029)	\$ (0.037)	\$ (0.006)	\$ 0.118	\$ 0.100	\$ 0.080	\$ 0.081	\$ 0.084

Over the last 22 months, the Company started to earn revenues on new contracts, as follows:

- Quarter ended April 30, 2009: Revenues from a new contract with the Province of Newfoundland;
- Quarter ended October 31, 2008: Revenues from a new contract with Correctional Services Canada;
- Quarter ended April 30, 2008: Revenues from a new contract with the Province of Manitoba; and
- Quarter ended January 31, 2008: Revenues from new contract with the Province of Nova Scotia.

During the quarter ended July 31, 2009, the Company signed one year extensions with both the Province of Manitoba and the Province of Saskatchewan.

Revenues

The Company had revenues from leasing, monitoring and activation of \$1,706,402 during the year ended July 31, 2009, with one customer, the OMCSGS contributing approximately 48% (2008 – 82%) of the total revenues. The contract with the OMCSGS ended on November 30, 2008. The decision by the OMCSGS to discontinue the use of the Company's services after November 30, 2008 has materially affected the Company's operating results for the year ended July 31, 2009.

	Years Ended July 31,			
	2009	2008	2007	2006
Revenue				
Leasing, monitoring and activation	\$ 1,706,402	\$ 3,116,047	\$ 2,697,538	\$ 2,595,535
Bail	78,428	53,945	91,189	50,151
Interest income	44,654	102,410	90,061	55,811
Total revenue	\$ 1,829,484	\$ 3,272,402	\$ 2,878,788	\$ 2,701,497

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. The Company has signed one year extensions with both the Province of Manitoba and the Province of Saskatchewan.

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.

Expenses

Revenues for the fiscal year ended July 31, 2009 decreased by 44% compared to the same period in 2008, while expenses, excluding of income tax expenses, decreased by 21%, principally due to the completion of the Ontario contract. Additional costs were incurred to wind down this agreement and to the start the new contracts with Correctional Services Canada and the Province of Newfoundland.

Category	Changes – Fiscal 2009 Compared to 2008
Accounting and administrative	Decrease: Less activity resulting in decrease in time required.
Consulting fees	Decrease: Reduction in 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: Smaller client base.
Interest on capital leases	Decrease: Lease repaid in quarter.
Office	Decrease: Smaller client base following the completion of the OMCSGS agreement.
Professional fees	Decrease: Less activity related to new service agreements.
Repairs and maintenance	Increase: Older equipment in certain projects and start up costs of Newfoundland agreement.
Salaries and benefits	Decrease: no bonus earned in 2009 due to the decrease in net income.
Shareholder communications	Decrease: More effective communications strategy.
Travel	Decrease: Less travel related to operations. Focus is now on pursuing potential local business acquisitions.

The Company acquired monitoring equipment for servicing its new agreement with the Province of Newfoundland. This equipment is being 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.

Net earnings

For the fiscal year ended July 31, 2009, the Company recorded a net income of \$109,763 compared to net income of \$798,565 in 2008. Net earnings for the fiscal year ended July 31, 2009 have decreased due to the completion in November 2008 of the 5 year agreement with Ontario offset by the reduction in related operating expenses related to the Ontario contract, a reduction in general and administrative expenses and the corresponding reduction in tax provision.

Item 6 and 7. Liquidity and Capital Resources

Liquidity

At July 31, 2009, the Company had cash and cash equivalents net of \$3,473,733 and working capital of \$3,553,688. 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, 2009	As at July 31, 2008
Current assets	\$ 3,750,482	\$ 4,120,199
Equipment	189,597	107,649
Other assets	25,092	28,148
Total assets	<u>\$ 3,965,171</u>	<u>\$ 4,255,996</u>
Current liabilities	\$ 196,794	\$ 597,382
Total liabilities	<u>\$ 196,794</u>	<u>\$ 597,382</u>
Stockholders' equity	<u>\$ 3,768,377</u>	<u>\$ 3,658,614</u>
Working capital	<u>\$ 3,553,688</u>	<u>\$ 3,522,817</u>

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

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 \$364,676 during the fiscal year ended July 31, 2009 as compared to \$667,433 in 2008. The decrease in cash flows from operations is principally due to a decrease in net income.

Cash flow used in investing activities for the fiscal year ended July 31, 2009 and 2008 relate principally to the purchase of equipment, and in 2008 \$20,500 was received from the proceeds from the exercise of stock options.

During the fiscal year ended July 31, 2009, the Company's financing activities consisted of \$82,039 (2008 - \$79,605) related to payments on capital lease obligations and in \$20,500 (2008 - \$nil) from 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. The lease was paid in full during the fiscal year ended July 31, 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 and 48% for the year ended July 31, 2009) from its contract with Ontario. The decision by this customer to discontinue the use of the Company's services after has materially affected the Company's operating results for the fiscal year ended July 31, 2009. During its fiscal year ended July 31, 2010, the Company expects to record operating losses 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.

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, 2009, \$Nil (2008 - \$90,000) 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, 2009, \$4,349 (2008 - \$90,000) was due to the President and was included in accounts payable and accrued liabilities.

During the year ended July 31, 2009, \$45,000 (2008 - \$55,167) was accrued or paid to the directors of the Company as directors' fees.

During the year ended July 31, 2009, \$49,032 (2008 - \$39,536) was paid to an officer of the Company for accounting fees. As at July 31, 2009, a total of \$1,213 (2008 - \$3,504) was owing to this officer and was 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, and were measured at the exchange amount, which is the amount established and agreed to by the related parties.

Item 10. Fourth Quarter

JEMTEC INC.

Statements of Operations and Comprehensive Income For the Fourth Quarter Ended July 31,

	2009	2008
Revenue		
Leasing, monitoring and activation	\$ 260,647	\$ 820,877
Interest income	4,707	21,547
	<u>265,354</u>	<u>842,424</u>
Expenses		
Accounting and administrative fees	7,553	44,230
Amortization	43,472	21,318
Consulting fees	32,500	49,650
Directors' fees	7,000	10,667
Equipment rent and installation	43,597	92,193
Interest on capital leases	-	1,796
Monitoring and activation fees	87,946	197,348
Office	7,502	41,968
Other interest expenses	4	60
Professional fees	7,331	36,666
Repairs and maintenance	7,417	3,520
Salaries and benefits	65,754	109,026
Shareholder communications	3,535	2,040
Travel	3,815	14,427
	<u>317,426</u>	<u>624,909</u>
Income before other items and income taxes	(52,072)	217,515
Other item		
Gain on settlement of accounts payable	-	-
Write-off of accrued liability	-	77,193
	<u>(52,072)</u>	<u>294,708</u>
Income before income taxes	(52,072)	294,708
Income tax expense		
Current	17,164	67,132
Future	764	764
	<u>17,928</u>	<u>67,896</u>
Net income and comprehensive income for the period	(70,000)	226,812

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, 2009 and 2008 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**Financial Instruments**

Effective August 1, 2007, the Company adopted the recommendations of the Canadian Institute of Chartered Accountants ("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 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 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 deducted from the financial liability and are amortized using the effective interest method over the expected life of the related liability.

The Accounting Standards Board ("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.

Recent Accounting Pronouncements

a) Assessing Going Concern

The 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.

b) Capital Disclosure

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.

c) Goodwill and Intangible assets

On January 8, 2008, the CICA issued Section 3064, "Goodwill and Intangible Assets". Section 3064 establishes standards for the recognition, measurement and disclosure of goodwill and intangible assets. Section 3064 is effective for annual and interim financial statements relating to fiscal years beginning on or after October 1, 2008. The Company does not expect the adoption of this standard to impact the financial statements.

d) Business Combinations

Section 1582, "Business Combinations", applies prospectively to the Company's business combinations on or after January 1, 2011. Early adoption of this recommendation is permitted. This section replaces Section 1581, "Business Combinations", and harmonizes the Canadian accounting standards with International Financial Reporting Standards ("IFRS"). Under the new guidance, the purchase price used in a business combination will be the new fair value of the shares exchanged at their market price on the date of the exchange.

Currently, when shares are issued, they are valued based on the market price for a reasonable period before and after the date the acquisition is agreed upon and announced. Under the new guidelines, all acquisition costs are expensed where currently they are capitalized as part of the acquisition costs. There are also a number of other differences between the new guidelines and current GAAP. The Company does not expect the adoption of this pronouncement to impact the financial statements.

e) Consolidated Financial Statements and Non-Controlling Interests

Section 1601, "Consolidated Financial Statements", and 1602, "Non-Controlling Interests", change the accounting and reporting ownership in interests in subsidiaries held by parties other than the parent. Non-controlling interests are to be presented in the consolidated statement of financial position (balance sheet) within equity, but separately from the parent's equity. The amount of consolidated net income attributable to the parent and to the non-controlling interest is to be clearly identified and presented on the face of the consolidated statement of operations. In addition, these pronouncements establish standards for a change in a parent's ownership interest in a subsidiary and the valuation of retained non-controlling equity investments when a subsidiary is deconsolidated. They also establish reporting requirements for providing sufficient disclosures that clearly identify and distinguish between the interests of the parent and the interest of the non-controlling owners. The Company does not expect the adoption of these pronouncements to impact its financial statements in fiscal 2011.

f) 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's 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 established a changeover plan from Canadian GAAP to IFRS for 2011 that consists of identifying phases such as training, scoping, changes to accounting policies, disclose requirements, changes to internal controls and external stakeholder communication, the financial reporting impact of the transition to IFRS cannot be reasonably estimated at this time. The Company will update its MD&A disclosure quarterly to report on the progress of its IFRS changeover plan. The Company anticipates that it will mostly 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, 2009, the Company had cash balances that exceeded the federally insured limits by \$3,372,479. All of these funds are on deposit with a Schedule A bank in Canada.

Item 15. Other Information

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 27, 2009:

Common shares	2,395,654
Shares issuable on the exercise of outstanding stock options	366,429
Shares available for future stock option grants	20,475

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.

On September 17, 2009, the Company granted 195,000 stock options to officers and directors, at a price of \$0.67 per share, expiring September 17, 2014. The options are subject to an 18 month vesting schedule with 1/6 of the options being released every three months.

Additional Information

Additional information relating to the Company is available on the SEDAR website at www.sedar.com and on the Company's website at www.JEMTEC.ca