

JEMTEC INC.

**Financial Statements
July 31, 2009 and 2008**



AUDITORS' REPORT

To the Shareholders of
JEMTEC Inc.

We have audited the balance sheets of JEMTEC Inc. as at July 31, 2009 and 2008, and the statements of operations and comprehensive income, shareholders' equity 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, 2009 and 2008, 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

November 26, 2009

"Morgan & Company"

Chartered Accountants

JEMTEC INC.

Balance Sheets

July 31, 2009

July 31, 2008

ASSETS

Current

Cash and cash equivalents	\$ 3,473,733	\$ 3,380,996
Accounts receivable	168,380	706,427
Prepaid expenses and deposits	20,533	32,776
Income taxes recoverable	87,836	-

Total current assets 3,750,482 4,120,199

Equipment (note 6) 189,597 107,649

Future income taxes (note 10) 25,092 28,148

Total assets \$ 3,965,171 \$ 4,255,996

LIABILITIES

Current

Accounts payable and accrued liabilities (note 9)	\$ 179,794	\$ 497,118
Deferred revenue	17,000	8,246
Capital lease obligation	-	82,039
Income taxes payable	-	9,979

Total current liabilities 196,794 597,382

SHAREHOLDERS' EQUITY

Share capital (note 8) 1,235,750 1,235,750

Contributed surplus 249,904 249,904

Retained earnings 2,282,723 2,172,960

Total shareholders' equity 3,768,377 3,658,614

Total liabilities and shareholders' equity \$ 3,965,171 \$ 4,255,996

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 Comprehensive Income

	For the years ended July 31,	
	2009	2008
Revenue		
Leasing, monitoring and activation (note 3(a))	\$ 1,784,830	\$ 3,169,992
Interest income	44,654	102,410
	1,829,484	3,272,402
Expenses		
Accounting and administrative fees (note 9)	49,032	64,586
Amortization	107,952	101,754
Consulting fees	143,200	169,777
Directors' fees (note 9)	45,000	55,167
Equipment rent and installation	283,802	247,330
Interest on capital leases	2,731	9,345
Monitoring and activation fees	578,298	796,740
Office	96,823	199,485
Other interest expenses	689	3,922
Professional fees	47,711	89,232
Repairs and maintenance	33,817	17,982
Salaries and benefits (note 9)	251,049	340,226
Shareholder communications	21,205	27,051
Travel	26,215	52,704
	1,687,524	2,175,301
Income before other items and income taxes	141,960	1,097,101
Other item		
Gain on settlement of accounts payable	21,575	-
Write-off of accrued liability (note 8 (b))	-	77,193
Income before income taxes	163,535	1,174,294
Income tax expense (note 10)		
Current	50,716	372,673
Future	3,056	3,056
	53,772	375,729
Net income and comprehensive income for the year	109,763	798,565
Earnings per share (note 11)		
Basic	\$ 0.05	\$ 0.34
Diluted	\$ 0.05	\$ 0.34
Weighted average number of shares outstanding (note 11)		
Basic	2,395,654	2,351,626
Diluted	2,395,654	2,365,121

The accompanying notes are an integral part of these financial statements

JEMTEC INC.

Statements of Shareholders' Equity

	Common Shares		Contributed Surplus	Retained Earnings	Total Shareholders' Equity
	Number of Shares	Amount			
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 income 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
Effect of consolidation rounding adjustment	(82)	-	-	-	-
Net income for the year	-	-	-	109,763	109,763
Balance, July 31, 2009	2,395,654	\$ 1,235,750	\$ 249,904	\$ 2,282,723	\$ 3,768,377

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

JEMTEC INC.

Statements of Cash Flows

	For the years ended July 31,	
	2009	2008
Cash flows from (used in) operating activities		
Net income for the year	\$ 109,763	\$ 798,565
Adjustments to reconcile net income to net cash used in operating activities:		
- amortization	107,952	101,754
- future income taxes	3,056	3,056
- write-off of accrued liability	-	(77,193)
Changes in non-cash working capital:		
- accounts receivable	538,047	(212,380)
- prepaid expenses	12,243	(12,043)
- accounts payable and accrued liabilities	(317,324)	139,037
- deferred revenue	8,754	(23,515)
- income taxes payable	(97,815)	(49,848)
Cash flows - operating activities	364,676	667,433
Cash flows (used in) investing activities		
Payment to shareholders	-	(762)
Purchase of equipment	(189,900)	(13,293)
Cash flows - investing activities	(189,900)	(14,055)
Cash flows from (used in) financing activities		
Proceeds from exercise of options	-	20,500
Payment on capital lease obligation	(82,039)	(79,605)
Cash flows - financing activities	(82,039)	(59,105)
Net increase in cash and cash equivalents	92,737	594,273
Cash and cash equivalents, beginning of year	3,380,996	2,786,723
Cash and cash equivalents, end of year	\$ 3,473,733	\$ 3,380,996

The accompanying notes are an integral part of these financial statements

Supplemental cash disclosures

Cash paid for:

Income taxes	\$ 148,471	\$ 362,722
Interest	\$ 3,420	\$ 13,267

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 comprise short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of change and have maturities of three months or less from the date of acquisition.

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 one to three 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 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.

k) Leases

Leases are classified as either capital or operating. Assets that are held by the Company under leases, which transfer to the Company substantially all the benefits and risks of ownership, are accounted for as assets acquired under capital leases. The capitalized lease obligations reflect the present value of future lease payments, discounted at an appropriate interest rate. Leases that are not classified as capital leases are accounted for as operating leases with payments included in operating expenses in the year incurred.

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, 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 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 on deposit that exceeded federally insured limits by \$3,390,259 (2008- \$3,274,357). All of these funds are on deposit with a Schedule A bank in Canada.

The Company had revenues from leasing, monitoring and activation of \$1,784,830 during the year ended July 31, 2009, with one customer contributing approximately 48% (2008 – 82%). The contract with this customer (Province of Ontario) 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 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.

3. Financial Instruments (continued)

a) Credit risk (continued)

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, equipment 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.

b) Fair value

Unless otherwise noted, cash, accounts receivable, accounts 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 accounts receivable to satisfy its liabilities as they become due.

4. Changes in Accounting Policies

a) 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.

4. Changes in Accounting Policies (continued)

a) Financial Instruments (continued)

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.

b) 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.

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.

d) 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.

4. Changes in Accounting Policies (continued)

e) 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.

f) 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.

g) 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.

5. Capital Management

The Company was formed for the purpose of providing services and technology for offender monitoring. The Board of Directors determines the Company's capital structure and makes adjustments to it based on funds available to the Company, in order to support the Company's operations. The Board of Directors has not established quantitative return on capital criteria for capital management.

The Company is dependent in the future upon external financing to fund its operations and administrative costs. The Company will spend existing working capital and raise additional amounts as needed. The Board of Directors review its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the Statement of Shareholders' Equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt, or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

6. Equipment

	July 31, 2009			July 31, 2008		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 48,301	\$ 40,145	\$ 8,156	\$ 46,222	\$ 38,150	\$ 8,072
Monitoring equipment	668,106	486,665	181,441	480,285	380,708	99,577
	<u>\$ 716,407</u>	<u>\$ 526,810</u>	<u>\$ 189,597</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 (2008 - \$373,100) and a net book value of \$21,290 (2008 - \$95,910).

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. 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 rate plus 1.3% per annum and would be secured by a general security agreement over all of the assets of the Company.

8. 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

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, and accordingly, on May 1, 2008, the Company wrote-off \$77,193 for previously accrued amounts due to shareholders that did not redeem their certificates.

During the fiscal year ended July 31, 2009, the Company adjusted its records for rounding adjustments resulting from the consolidation.

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 of 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 TSXV.

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	299,048	\$ 0.80
Exercised	<u>(100,000)</u>	\$ 0.21
Outstanding, July 31, 2008	199,048	\$ 1.10
Cancelled	<u>(27,619)</u>	\$ 1.10
Outstanding, July 31, 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 year ended July 31, 2009, the Company cancelled 27,619 options that had been granted to a former director.

JEMTEC INC.
Notes to Financial Statements
July 31, 2009 and 2008

8. Share Capital (continued)

c) Options (continued)

Options outstanding at July 31, 2009 are as follows:

	# of Options Granted	Expiry	Exercise Price	Options Outstanding and Vested		
				Number Outstanding and Vested as at July 31, 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>	0.90 years	\$ 1.10

Subsequent to July 31, 2009, 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. The fair value of the options granted will be estimated on the date of grant using the Black-Scholes option pricing model.

9. Related Party Balances and Transactions

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.

JEMTEC INC.
Notes to Financial Statements
July 31, 2009 and 2008

10. 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>2009</u>	<u>2008</u>
Net income before taxes	<u>\$ 163,535</u>	<u>\$ 1,097,101</u>
Income taxes at federal and provincial statutory rates of 30% (2008 - 33%)	49,060	362,043
Increase (decrease) by the effect of		
Non-deductible items	819	4,378
Other	3,893	9,308
Income tax expense	<u>\$ 53,772</u>	<u>\$ 375,729</u>

Future tax assets of the Company are as follows:

	<u>2009</u>	<u>2008</u>
Equipment allowance	<u>\$ 25,092</u>	<u>\$ 28,148</u>
	<u>\$ 25,092</u>	<u>\$ 28,148</u>

As at July 31, 2009 and 2008, the Company believes that it is more likely than not that the excess capital cost allowance pools available of \$67,280 (2008 - \$85,250) for tax purposes will be utilized in the future. Thus, no valuation allowance has been recorded as at July 31, 2009 and 2008, 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.

11. Earnings per Share

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

	Year ended July 31,	
	<u>2009</u>	<u>2008</u>
	Number of shares	
Basic weighted average shares outstanding	2,395,654	2,351,626
Effect of dilutive securities:		
Options	-	13,495
Diluted weighted average shares outstanding	<u>2,395,654</u>	<u>2,365,121</u>