

JEMTEC INC.

Management Discussion and Analysis

October 31, 2009

This Management Discussion and Analysis of JEMTEC Inc. (“JEMTEC” or the “Company”) provides analysis of JEMTEC’s financial results for the fiscal period ended October 31, 2009. The following information should be read in conjunction with the accompanying unaudited financial statements and the notes to the unaudited financial statements as at October 31, 2009. This discussion is meant to be an update of the Management Discussion and Analysis for the fiscal year ended July 31, 2009, dated November 27, 2009 and does not necessarily repeat information that has not significantly changed since the audited annual financial statements were issued.

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

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

Item 1. Date: December 18, 2009

This management discussion and analysis, dated December 18, 2009, accompanies the financial statements of the Company for the fiscal quarter ended October 31, 2009.

Item 3. Annual Information

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

	Three month periods ended October 31,		
	2009	2008	2007
Revenue	\$ 255,284	\$ 867,306	\$ 742,964
Expenses	335,084	544,302	441,644
Net (loss) income before income taxes	(79,800)	323,004	301,320
Income tax (recovery) expense	(14,481)	41,276	107,387
Net (loss) income for the period	\$ (65,319)	\$ 281,728	\$ 193,933
(Loss) earnings per share			
Basic	\$ (0.03)	\$ 0.12	\$ 0.08
Diluted	\$ (0.03)	\$ 0.12	\$ 0.08

Item 4 and 5. Results of Operations, Quarterly Results

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

Unaudited summarized information for the last eight quarters:

	Quarters Ended							
	October 31 2009	July 31 2009	April 30 2009	January 31 2009	October 31 2008	July 31 2008	April 30 2008	January 31 2008
Revenue	\$ 255,284	\$ 265,354	\$ 270,482	\$ 426,342	\$ 867,306	\$ 842,424	\$ 843,898	\$ 843,116
Expenses	335,084	317,426	421,002	383,219	544,302	547,716	550,110	558,638
Net (loss) income before taxes	\$ (79,800)	\$ (52,072)	\$ (150,520)	\$ 43,123	\$ 323,004	\$ 294,708	\$ 293,788	\$ 284,478
(Recovery) provision for taxes	(14,481)	17,928	(62,315)	56,883	41,276	67,896	101,276	99,170
Net (loss) income	\$ (65,319)	\$ (70,000)	\$ (88,205)	\$ (13,760)	\$ 281,728	\$ 226,812	\$ 192,512	\$ 185,308
Basic (loss) earnings per share	\$ (0.030)	\$ (0.029)	\$ (0.037)	\$ (0.006)	\$ 0.118	\$ 0.100	\$ 0.080	\$ 0.081

Over the last 2 years, the Company started to earn revenues on new contracts, as follows:

- Quarter ended July 31, 2009: The Company signed one year extensions with both the Province of Manitoba and the Province of Saskatchewan;
- 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.

Revenues

The Company had revenues from leasing, monitoring and activation of \$846,043 during the three month period ended October 31, 2008, with one customer, the OMCSGS contributing approximately 77% 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 three month period ended October 31, 2009.

	Quarters Ended October 31,		
	2009	2008	2007
Revenue			
Leasing, monitoring and activation	\$ 245,553	\$ 846,043	\$ 701,675
Bail	7,500	580	12,165
Interest income	2,231	20,683	29,124
Total revenue	\$ 255,284	\$ 867,306	\$ 742,964

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 three month period ended October 31, 2009 decreased by 71% compared to the same period in 2008, while expenses, excluding of income tax expenses, decreased by 38%, principally due to the completion of the Ontario contract.

Category	Changes – Fiscal 2009 Compared to 2008
Accounting and administrative	Increase: Increase in the hourly fee in 2009.
Amortization	Increase: Additional equipment, see comment below.
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.
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.
Shareholder communications	Decrease: More effective communications strategy.
Stock based compensation	Increase: Grant of options during the quarter
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 during the year ended July 31, 2009. 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 three month period ended October 31, 2009, the Company recorded a net loss of \$65,319 compared to net income of \$281,728 in the same period of 2008. The loss for the three month period ended October 31, 2009 is due to the completion in November 2008 of the 5 year agreement with Ontario resulting in a loss of significant revenue 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 the tax provision.

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

At October 31, 2009, the Company had cash and cash equivalents net of \$3,473,096 and working capital of \$3,541,569. All cash and cash equivalents are on deposit with a Schedule A bank in Canada in interest accruing accounts.

Financial Position

	As at October 31, 2009	As at July 31, 2008
Current assets	\$ 3,739,492	\$ 3,750,482
Equipment	154,695	189,597
Other assets	19,420	25,092
Total assets	<u>\$ 3,913,607</u>	<u>\$ 3,965,171</u>
Current liabilities	<u>\$ 197,923</u>	<u>\$ 196,794</u>
Total liabilities	<u>\$ 197,923</u>	<u>\$ 196,794</u>
Stockholders' equity	<u>\$ 3,715,684</u>	<u>\$ 3,768,377</u>
Working capital	<u>\$ 3,541,569</u>	<u>\$ 3,553,688</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 (\$637) during the three month period ended October 31, 2009 compared to \$309,023 in 2008. The decrease in cash flows from operations is due to a decrease in net income.

Cash flow used in investing activities for the three month period ended October 31, 2008 relate to the purchase of equipment. There was no equipment purchased during the three month period ended October 31, 2009.

During the three month period ended October 31, 2008, the Company's financing activities consisted of \$20,815 related to payments on capital lease obligations. The lease was repaid in full during the 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 OMSCS. 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 month period ended October 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 three month period ended October 31, 2009, \$nil (2008 - \$87,500) 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 October 31, 2009, \$nil (2008 - \$87,750) was due to the President and was included in accounts payable and accrued liabilities.

During the three month period ended October 31, 2009, \$6,250 (2008 - \$7,500) was accrued or paid to the directors of the Company as directors' fees for the fiscal year ended July 31, 2010.

During the three month period ended October 31, 2009, \$11,551 (2008 - \$5,800) was paid to an officer of the Company for accounting fees.

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 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 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 October 31, 2009, the Company had cash balances that exceeded the federally insured limits by \$3,373,096. All of these funds are on deposit with a Schedule A bank in Canada.

Item 15. Other Information**Capital Stock**

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

At December 18, 2009, 2,395,654 common shares were outstanding.

Stock Options

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.

At December 18, 2009, 366,429 shares were issuable upon the exercise of outstanding stock options and 20,475 shares were available for future stock option grants.

Warrants

None outstanding.

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