

# JEMTEC INC.

## Financial Statements October 31, 2009

***Notice to Reader:***

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

# JEMTEC INC.

## Balance Sheets

October 31, 2009

July 31, 2009

### ASSETS

#### Current

Cash and cash equivalents	\$ 3,473,096	\$ 3,473,733
Accounts receivable	134,848	168,380
Prepaid expenses and deposits	23,559	20,533
Income taxes recoverable	107,989	87,836

**Total current assets** 3,739,492 3,750,482

**Equipment** (note 3) 154,695 189,597

**Future income taxes** (note 7) 19,420 25,092

**Total assets** \$ 3,913,607 \$ 3,965,171

### LIABILITIES

#### Current

Accounts payable and accrued liabilities	\$ 188,423	\$ 179,794
Deferred revenue	9,500	17,000

**Total current liabilities** 197,923 196,794

### SHAREHOLDERS' EQUITY

Share capital (note 5)	1,235,750	1,235,750
Contributed surplus (note 5)	262,530	249,904
Retained earnings	2,217,404	2,282,723

**Total shareholders' equity** 3,715,684 3,768,377

**Total liabilities and shareholders' equity** \$ 3,913,607 \$ 3,965,171

The accompanying notes are an integral part of these unaudited interim 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 three month periods  
ended October 31,

	<b>2009</b>	2008
<b>Revenue</b>		
Leasing, monitoring and activation	\$ 253,053	\$ 846,623
Interest income	2,231	20,683
	<b>255,284</b>	867,306
<b>Expenses</b>		
Accounting and administrative fees (note 6)	12,896	8,595
Amortization	34,902	21,205
Consulting fees	31,500	41,600
Directors' fees (note 6)	6,250	7,500
Equipment rent and installation	40,427	115,408
Interest on capital leases	-	1,425
Monitoring and activation fees	86,116	231,883
Office	15,548	21,484
Professional fees	9,805	12,698
Repairs and maintenance	10,981	8,112
Salaries and benefits (note 6)	64,030	61,062
Shareholder communications	3,569	3,764
Stock based compensation	12,626	-
Travel	6,434	9,566
	<b>335,084</b>	544,302
<b>(Loss) income before income taxes</b>	<b>(79,800)</b>	323,004
<b>Income tax (recoverable) expense (note 7)</b>		
Current	(20,153)	40,512
Future	5,672	764
	<b>(14,481)</b>	41,276
<b>Net (loss) income and comprehensive income for the period</b>	<b>(65,319)</b>	281,728
<b>(Loss) earnings per share (note 8)</b>		
Basic	\$ (0.03)	\$ 0.12
Diluted	\$ (0.03)	\$ 0.12
Weighted average number of shares outstanding (note 8)		
Basic	2,395,654	2,395,736
Diluted	2,395,654	2,395,736

The accompanying notes are an integral part of these unaudited interim 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
Stock based compensation (note 5)	-	-	12,626	-	12,626
Net (loss) for the period	-	-	-	(65,319)	(65,319)
<b>Balance, October 31, 2009</b>	<b>2,395,654</b>	<b>\$ 1,235,750</b>	<b>\$ 262,530</b>	<b>\$ 2,217,404</b>	<b>\$ 3,715,684</b>

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

# JEMTEC INC.

## Statements of Cash Flows

For the three month periods  
ended October 31,

	2009	2008
<b>Cash flows from (used in) operating activities</b>		
Net (loss) income for the period	(\$65,319)	\$ 281,728
Adjustments to reconcile net income to net cash used in operating activities:		
- amortization	34,902	21,205
- future income taxes	5,672	764
- stock based compensation	12,626	-
Changes in non-cash working capital:		
- accounts receivable	33,532	93,045
- prepaid expenses	(3,026)	4,340
- accounts payable and accrued liabilities	8,629	(23,813)
- deferred revenue	(7,500)	(8,246)
- income taxes payable	(20,153)	(60,000)
<b>Cash flows - operating activities</b>	<b>(637)</b>	<b>309,023</b>
<b>Cash flows (used in) investing activities</b>		
Purchase of equipment	-	(2,078)
<b>Cash flows - investing activities</b>	<b>-</b>	<b>(2,078)</b>
<b>Cash flows (used in) financing activities</b>		
Payment on capital lease obligation	-	(20,815)
<b>Cash flows - financing activities</b>	<b>-</b>	<b>(20,815)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(637)</b>	<b>286,130</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,473,733</b>	<b>3,380,996</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 3,473,096</b>	<b>\$ 3,667,126</b>

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

### Supplemental cash disclosures

#### Cash paid for:

Income taxes	\$ -	\$ 100,512
Interest	\$ -	\$ 1,425

**JEMTEC INC.**  
**Notes to Interim Financial Statements**  
**October 31, 2009**

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**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, 2009.

The accounting policies followed by the Company are set out in notes 2, 3, 4 and 5 to the audited financial statements for the year ended July 31, 2009, and have been consistently followed in the preparation of these interim financial statements.

**3. Equipment**

	<b>October 31, 2009</b>			<b>July 31, 2009</b>		
	Cost	Accumulated Amortization	Net Book Value	Costs	Accumulated Amortization	Net Book Value
Furniture and fixtures	\$ 48,301	\$ 40,552	\$ 7,749	\$ 48,301	\$ 40,145	\$ 8,156
Monitoring equipment	668,106	521,160	146,946	668,106	486,665	181,441
	<u>\$ 716,407</u>	<u>\$ 561,712</u>	<u>\$ 154,695</u>	<u>\$ 716,407</u>	<u>\$ 526,810</u>	<u>\$ 189,597</u>

Included in monitoring equipment are assets under capital lease at a cost of \$373,100 (July 31, 2009 - \$373,100) and a net book value of \$2,635 (July 31, 2009 - \$21,290).

The Company amortizes its monitoring equipment over its estimated useful life as described in note 2 of its audited financial statements for the fiscal year ended July 31, 2009. 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. 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.

**5. 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
<b>Balance July 31, 2006 and 2007</b>	2,295,736	\$ 1,215,250
Shares issued for exercise of stock options	<u>100,000</u>	<u>\$ 20,500</u>
<b>Balance July 31, 2008</b>	2,395,736	\$ 1,235,750
Effect of consolidation rounding adjustments	<u>(82)</u>	<u>-</u>
<b>Balance July 31, 2009 and October 31, 2009</b>	<u><u>2,395,654</u></u>	<u><u>\$ 1,235,750</u></u>

**c) Options**

During the year ended July 31, 2003, the Company adopted a fixed stock option plan that permits the directors of the Company to grant incentive stock options to employees, directors and consultants 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>	<u>\$ 0.21</u>
Outstanding, July 31, 2008	199,048	\$ 1.10
Cancelled	<u>(27,619)</u>	<u>\$ 1.10</u>
Outstanding, July 31, 2009	171,429	\$ 1.10
Granted	<u>195,000</u>	<u>\$ 0.67</u>
Outstanding, October 31, 2009	<u><u>366,429</u></u>	<u><u>\$ 0.87</u></u>

**JEMTEC INC.**  
**Notes to Interim Financial Statements**  
**October 31, 2009**

**5. Share Capital (continued)**

**c) Options (continued)**

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.

On September 17, 2009, the Company granted 195,000 stock options to officers and directors of the Company, at a price of \$0.67 per share, expiring September 17, 2014. The options are subject to an 18 month vesting schedule. The fair value of the options granted was estimated on the date of grant at \$75,758 using the Black-Scholes option pricing model. The stock based compensation expense will be recognized as the options vest. Accordingly, during the three month period ended October 31, 2009, the Company recorded \$12,626 in stock based compensation as 32,500 options vested upon grant.

Options outstanding at October 31, 2009 are as follows:

	# of Options Granted	Expiry	Exercise Price	Exercised	Cancelled	Number Outstanding as at October 31, 2009	Options Outstanding		Options Exercisable	
							Weighted Average Remaining Contractual Life (year)	Weighted Average Exercise Price	Number Vested as at October 31, 2009	Weighted Average Exercise Price
Granted, June 9, 2005	280,000	23-Jun-10	\$ 1.10	34,284	74,287	171,429	0.30	\$ 0.51	171,429	\$ 0.92
Granted, September 17, 2009	195,000	17-Sep-14	\$ 0.67	-	-	195,000	2.60	\$ 0.36	32,500	\$ 0.11
	<u>475,000</u>			<u>34,284</u>	<u>74,287</u>	<u>366,429</u>	<u>2.90 years</u>	<u>\$ 0.87</u>	<u>203,929</u>	<u>\$ 1.03</u>

**6. Related Party Balances and Transactions**

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.

**JEMTEC INC.**  
**Notes to Interim Financial Statements**  
**October 31, 2009**

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**7. 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>October 31, 2009</u>	<u>October 31, 2008</u>
Net (loss) income before taxes	<u>(\$79,800)</u>	<u>\$ 323,004</u>
Income taxes at federal and provincial statutory rates of 30% (2008 - 33%)	(23,940)	106,591
Increase (decrease) by the effect of		
Non-deductible items	3,787	-
Other	5,672	(65,315)
	<u>(\$14,481)</u>	<u>\$ 41,276</u>

Future tax assets of the Company are as follows:

	<u>October 31, 2009</u>	<u>July 31, 2009</u>
Equipment allowance	<u>\$ 19,420</u>	<u>\$ 25,092</u>
	<u>\$ 19,420</u>	<u>\$ 25,092</u>

**8. Earnings per Share**

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

	Three month period ended October 31,	
	<u>2009</u>	<u>2008</u>
	Number of shares	
Basic weighted average shares outstanding	<u>2,395,654</u>	2,395,736
Effect of dilutive securities:		
Options	-	-
Diluted weighted average shares outstanding	<u>2,395,654</u>	<u>2,395,736</u>