

**JEMTEC Inc.**

**Financial Statements**  
**Years Ended July 31, 2017 and 2016**  
*(Expressed in Canadian dollars)*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
JEMTEC Inc.

### Report on the financial statements

We have audited the accompanying financial statements of JEMTEC Inc., which comprise the statements of financial position as at July 31, 2017 and 2016, and the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of JEMTEC Inc. as at July 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada

*"Morgan & Company LLP"*

November 27, 2017

Chartered Professional Accountants

# JEMTEC INC.

Statements of Operations and Comprehensive Income (Loss)  
(Expressed in Canadian Dollars)

For the years ended July 31, 2017 and 2016

|                                                                       | Notes  | 2017             | 2016                |
|-----------------------------------------------------------------------|--------|------------------|---------------------|
| <b>Revenue</b>                                                        |        |                  |                     |
| Leasing, monitoring, activation and bail                              |        | \$ 1,210,548     | \$ 900,120          |
| Interest income                                                       |        | 8,900            | 9,687               |
|                                                                       |        | <b>1,219,448</b> | <b>909,807</b>      |
| <b>Expenses</b>                                                       |        |                  |                     |
| Accounting and administrative fees                                    | 11, 12 | 30,000           | 30,000              |
| Consulting fees                                                       |        | 108,000          | 108,000             |
| Depreciation                                                          | 6      | 505              | 19,079              |
| Directors' fees                                                       | 11, 12 | 47,921           | 48,421              |
| Equipment rent and installation                                       |        | 73,609           | 85,205              |
| Foreign exchange (gain) loss                                          |        | (14,649)         | 6,449               |
| Monitoring and activation fees                                        |        | 427,708          | 248,336             |
| Office                                                                |        | 102,105          | 79,873              |
| Professional fees                                                     |        | 19,624           | 20,961              |
| Repairs and maintenance                                               |        | 54,716           | 49,919              |
| Salaries and benefits                                                 | 11, 12 | 276,462          | 275,319             |
| Share-based payments                                                  | 11, 12 | 15,555           | 46,794              |
| Shareholder communications                                            |        | 17,113           | 16,931              |
| Travel                                                                |        | 26,755           | 23,890              |
|                                                                       |        | <b>1,185,424</b> | <b>1,059,177</b>    |
| <b>Net income (loss) and comprehensive income (loss) for the year</b> |        | <b>\$ 34,024</b> | <b>\$ (149,370)</b> |
| <b>Basic and diluted earnings (loss) per share</b>                    |        | <b>\$ 0.01</b>   | <b>\$ (0.06)</b>    |
| <b>Weighted-average number of shares outstanding</b>                  |        |                  |                     |
| Basic                                                                 |        | 2,485,654        | 2,485,654           |
| Diluted                                                               |        | 2,574,604        | 2,485,654           |

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

# JEMTEC INC.

Statements of Financial Position  
(Expressed in Canadian Dollars)

As at July 31, 2017 and 2016

|                                                   | Notes | 2017                | 2016                |
|---------------------------------------------------|-------|---------------------|---------------------|
| <b>Assets</b>                                     |       |                     |                     |
| <b>Current assets</b>                             |       |                     |                     |
| Cash and cash equivalents                         |       | \$ 1,325,822        | \$ 1,282,673        |
| Accounts receivable                               |       | 170,624             | 141,390             |
| Prepaid expenses and deposits                     |       | 17,092              | 18,217              |
| <b>Total current assets</b>                       |       | <b>1,513,538</b>    | <b>1,442,280</b>    |
| Equipment                                         | 6     | 280,451             | 2,506               |
| <b>Total assets</b>                               |       | <b>\$ 1,793,989</b> | <b>\$ 1,444,786</b> |
| <b>Liabilities and Shareholders' Equity</b>       |       |                     |                     |
| <b>Current liabilities</b>                        |       |                     |                     |
| Accounts payable and accrued liabilities          | 8, 11 | \$ 560,710          | \$ 260,706          |
| Customer deposits                                 |       | 17,198              | 20,199              |
| Deferred revenue                                  |       | 7,999               | 5,378               |
| <b>Total liabilities</b>                          |       | <b>585,907</b>      | <b>286,283</b>      |
| <b>Shareholders' equity</b>                       |       |                     |                     |
| Share capital                                     | 9     | 1,296,050           | 1,296,050           |
| Share-based payments reserves                     | 9     | 399,462             | 383,907             |
| Deficit                                           |       | (487,430)           | (521,454)           |
| <b>Total shareholders' equity</b>                 |       | <b>1,208,082</b>    | <b>1,158,503</b>    |
| <b>Total liabilities and shareholders' equity</b> |       | <b>\$ 1,793,989</b> | <b>\$ 1,444,786</b> |

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

Approved on behalf of the Board and authorized for issue on November 27, 2017:

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"Eric Caton" Director

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"Leslie Markow" Director

# JEMTEC INC.

Statements of Changes in Shareholders' Equity  
(Expressed in Canadian Dollars)

For the years ended July 31, 2017 and 2016

|                               | Number of<br>Common<br>Shares | Share<br>Capital    | Share-Based<br>Payments<br>Reserves | Deficit              | Total<br>Shareholders'<br>Equity |
|-------------------------------|-------------------------------|---------------------|-------------------------------------|----------------------|----------------------------------|
| Balance, July 31, 2015        | 2,485,654                     | \$ 1,296,050        | \$ 337,113                          | \$ (372,084 )        | \$ 1,261,079                     |
| Share-based payments          | -                             | -                   | 46,794                              | -                    | 46,794                           |
| Net loss for the year         | -                             | -                   | -                                   | (149,370 )           | (149,370 )                       |
| Balance, July 31, 2016        | 2,485,654                     | 1,296,050           | 383,907                             | (521,454 )           | 1,158,503                        |
| Share-based payments          | -                             | -                   | 15,555                              | -                    | 15,555                           |
| Net income for the year       | -                             | -                   | -                                   | 34,024               | 34,024                           |
| <b>Balance, July 31, 2017</b> | <b>2,485,654</b>              | <b>\$ 1,296,050</b> | <b>\$ 399,462</b>                   | <b>\$ (487,430 )</b> | <b>\$ 1,208,082</b>              |

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

# JEMTEC INC.

Statements of Cash Flows  
(Expressed in Canadian Dollars)

For the years ended July 31, 2017 and 2016

|                                                                             | 2017                | 2016                |
|-----------------------------------------------------------------------------|---------------------|---------------------|
| <b>Cash provided by (used for):</b>                                         |                     |                     |
| <b>Operating activities</b>                                                 |                     |                     |
| Net income (loss) for the year                                              | \$ 34,024           | \$ (149,370)        |
| Adjustments to reconcile net loss to net cash used in operating activities: |                     |                     |
| Depreciation                                                                | 505                 | 19,079              |
| Share-based payments                                                        | 15,555              | 46,794              |
| Changes in non-cash operating working capital                               |                     |                     |
| Accounts receivable                                                         | (29,234)            | (57,249)            |
| Prepaid expenses and deposits                                               | 1,125               | (537)               |
| Accounts payable and accrued liabilities                                    | 21,554              | 16,696              |
| Customer deposits                                                           | (3,001)             | (10,831)            |
| Deferred revenue                                                            | 2,621               | 400                 |
|                                                                             | <b>43,149</b>       | <b>(135,018)</b>    |
| <b>Increase (decrease) in cash during the year</b>                          | <b>43,149</b>       | <b>(135,018)</b>    |
| Cash and cash equivalents, beginning of year                                | <b>1,282,673</b>    | 1,417,691           |
| <b>Cash and cash equivalents, end of year</b>                               | <b>\$ 1,325,822</b> | <b>\$ 1,282,673</b> |
| <b>Cash and cash equivalents</b>                                            |                     |                     |
| Cash                                                                        | \$ 148,650          | \$ 114,287          |
| Short-term deposits                                                         | 1,177,172           | 1,168,386           |
|                                                                             | <b>\$ 1,325,822</b> | <b>\$ 1,282,673</b> |
| <b>Supplementary Information</b>                                            |                     |                     |
| Interest received                                                           | \$ 8,900            | \$ 9,687            |

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

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 1. Nature of operations

JEMTEC Inc. (the "Company") was incorporated under the Canada Business Corporations Act and is listed on the TSX Venture Exchange ("TSXV"). The Company's core business is the provision of services and technologies for offender monitoring with Canadian federal and provincial correctional departments. The Company's services include global positioning systems, electronic monitoring, alcohol detection, and voice verification technologies, as they relate to location verification of offenders and individuals under restrictions in the community.

The corporate head office of the Company is located at Suite 200, 38 Fell Avenue, North Vancouver, BC, and its registered office is located at Suite 1800, 130 King Street West, Toronto, ON.

## 2. Basis of presentation

### a) Statement of compliance

These financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

### b) Functional and presentation currency

The Company's functional and reporting currency is the Canadian dollar. Monetary assets and liabilities denominated in another currency are translated at the prevailing period-end exchange rates. Other non-monetary assets and liabilities denominated in another currency are translated at historical exchange rates. Revenues 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.

### c) Asset impairment

On an annual basis, or when impairment arises, the Company evaluates the future recoverability of its 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.

### d) Comprehensive income

Comprehensive income is the change in shareholders' equity during a period from transactions and other events and circumstances from non-owner sources. The Company had no elements of other comprehensive income for the years ended July 31, 2017 and 2016.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 2. Basis of presentation (Continued)

### e) Estimates and judgements

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant areas requiring the use of management estimates relate to:

- Asset carrying values and impairment charges;
- Estimation of asset lives;
- Recognition of deferred taxes; and
- Share-based payments.

## 3. Significant accounting policies

These financial statements have been prepared in accordance with IFRS as issued by the IASB and the IFRIC and authorized for issue by the Board of Directors.

The significant accounting policies adopted by the Company are as follows:

### a) Cash and cash equivalents

Cash and cash equivalents are comprised of cash deposits in the bank and highly liquid investments with original maturities of three months or less that is readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

### b) Equipment

Equipment is stated at cost less accumulated depreciation. The cost of an item of equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. Equipment is depreciated over the estimated useful lives of the respective assets at the following rates:

|                      |                                        |
|----------------------|----------------------------------------|
| Furniture & fixtures | 20% declining balance                  |
| Monitoring equipment | straight-line over the contract period |

Useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate. An impairment review is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the asset may exceed its recoverable amount. To the extent that this occurs, the asset is written down to its estimated net realizable value.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### c) 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 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 term of existing service agreements is between 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 would be returned to the Company or the Company's lessors with no further obligation on behalf of the lessee.

Interest income is recorded when earned.

### d) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as accretion expense.

### e) Financial instruments – recognition and measurement

Financial assets and liabilities are initially recognized at fair value and are subsequently measured based on their classification as fair value through profit or loss, held-to-maturity, loans and receivables, available-for-sale, or other financial liabilities, as described below:

#### i) Fair value through profit or loss

Financial assets and financial liabilities that are purchased or incurred with the intention of generating profits in the near term are classified as fair value through profit or loss. Any financial instrument can be designated as fair value through profit or loss as long as the fair value can be reliably measured. These instruments are measured at fair value with subsequent changes in fair value included in earnings.

The Company has classified cash and cash equivalents as assets at fair value through profit or loss, which, accordingly, are carried at their fair values.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### e) Financial instruments – recognition and measurement (Continued)

#### ii) Held-to-maturity

Financial assets that have a fixed maturity date and fixed or determinable payments, where the Company intends and has the ability to hold the financial asset to maturity are classified as held-to-maturity and are measured at amortized cost using the effective interest rate method. Any gains and losses arising from the sale of held-to-maturity financial assets are included in earnings.

Currently, the Company has no held-to-maturity financial assets.

#### iii) Loans and receivables

Items classified as loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses on the realization of loans and receivables are included in earnings. The Company has classified accounts receivable as loans and receivables. Due to the short-term nature of these assets, their fair values approximate their carrying values.

#### iv) Available-for-sale

Available-for-sale assets are those financial assets that are not classified as fair value through profit or loss, held-to-maturity or loans or receivables, and are carried at fair value. Any gains or losses arising from the change in fair value are recorded as other comprehensive income. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect other-than-temporary impairment. Cumulative gains and losses arising upon the sale of the instrument are included in earnings. Transaction costs related to the purchase or sale of available-for-sale securities will be added to or deducted from the cost or proceeds of the relevant securities.

Currently, the Company has no available-for-sale financial assets.

#### v) Other financial liabilities

Financial liabilities that are not classified as fair value through profit or loss are classified as other financial liabilities and are carried at amortized cost using the effective interest method. Any gains or losses arising from the realization of other financial liabilities are included in earnings.

The Company has classified accounts payable and accrued liabilities and customer deposits as other financial liabilities. Due to the short-term nature of these liabilities, their fair values approximate their carrying values.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### e) Financial instruments – recognition and measurement (Continued)

#### vi) Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. Any difference in the respective carrying amounts is recognized in the statement of comprehensive income/loss.

Subsequent measurement at fair value of financial assets and liabilities are recorded through profit and loss.

### f) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the stock options note 9(b).

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### g) Earnings per share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share amounts are calculated giving effect to the potential dilution that would occur if securities or other contracts to issue common shares were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to redeem common shares at the prevailing market value. 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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### h) Income taxes

#### i) Current income tax

Current income tax is recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years.

#### ii) Deferred income tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

### i) Future accounting changes

A number of new standards, amendments to standards and interpretations are not yet effective as of July 31, 2017 and have not been applied in preparing these financial statements. These new standards and interpretation are not expected to have a material effect on the financial statements of the Company. The Company intends to adopt the following standards when they become effective:

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### i) Future accounting changes (Continued)

#### i) IFRS 9 – Financial instruments, classification and measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

#### ii) IFRS 15 – Revenue from contracts with customers

IFRS 15 applies to all contracts with customers and provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, except for: leases, insurance contracts and financial instruments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018 and is available for early adoption. The Company has not yet determined the impact of IFRS 15 on its financial statements.

#### iii) IFRS 16 – Leases

IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, lessee and lessor. IFRS is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from contracts with customers. The Company has not yet determined the impact of IFRS 16 on its financial statements.

## 4. Financial instruments and financial risk management

The Company's risk exposure and impact on the Company's financial instruments are summarized below:

### 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 accounts 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 believes it is not exposed to any significant credit risk from cash. At July 31, 2017, the Company had cash balances on deposit that exceeded federally insured limits by \$1,125,822 (2016 – \$1,082,673). All of these funds are on deposit with Schedule I banks in Canada.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 4. Financial instruments and financial risk management (Continued)

### a) Credit risk (Continued)

The Company is a Canadian distributor of Stop LLC, SuperCom Inc., Omnilink Systems Inc. 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 these four U.S. companies for the continued supply of monitoring equipment, replacement parts, and maintenance services for resale or rental by the Company.

### b) Liquidity risk

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period. The Company intends to settle these with funds from its working capital position.

Cash resources, repayment obligations and spending plans are monitored and actions are taken with the objective of ensuring that there is sufficient capital in order to meet short-term business requirements. As at July 31, 2017, the Company had cash of \$1,325,822 (2016 - \$1,282,673) to settle \$585,907 (2016 - \$286,283) in current liabilities which fall due for payment within 12 months of the Statement of Financial Position.

### c) Market risk

The market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The Company's future interest income is exposed to short-term rate fluctuations. This is not a significant risk to the Company.

### d) Foreign exchange risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rate. Only insignificant balances of the Company's accounts payable and accrued liabilities are denominated in US dollars and therefore the Company's exposure to foreign currency exchange risk is limited.

### e) Fair value

The recorded value of the Company's financial assets and liabilities approximate their fair values due to their demand nature and their short-term to maturity.

### f) Sensitivity analysis

Based on management's knowledge and experience of the financial markets, the Company does not expect any material movements in the underlying market risk variables over a twelve-month period.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2017 and 2016  
(Expressed in Canadian Dollars)

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## 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 has sufficient cash on hand to meet its short-term obligations and fund its operations and administrative costs. The Company will use existing working capital and raise additional amounts as needed. The Board of Directors reviews 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 Statements of Changes in 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 any externally imposed capital requirements.

## 6. Equipment

|                                                | <b>Furniture</b> | <b>Monitoring<br/>Equipment</b> | <b>Total</b>      |
|------------------------------------------------|------------------|---------------------------------|-------------------|
| Costs, July 31, 2016                           | \$ 50,222        | \$ 325,503                      | \$ 375,725        |
| Additions                                      | -                | 278,450                         | 278,450           |
| <b>Costs, July 31, 2017</b>                    | <b>50,222</b>    | <b>603,953</b>                  | <b>654,175</b>    |
| Accumulated depreciation, July 31, 2016        | 47,733           | 325,486                         | 373,219           |
| Current year depreciation                      | 488              | 17                              | 505               |
| <b>Accumulated depreciation, July 31, 2017</b> | <b>48,221</b>    | <b>325,503</b>                  | <b>373,724</b>    |
| <b>Net book value, July 31, 2017</b>           | <b>\$ 2,001</b>  | <b>\$ 278,450</b>               | <b>\$ 280,451</b> |

As at July 31, 2017, the carrying value of monitoring equipment that is temporarily idle and not in use is \$278,450 (2016 - \$Nil).

# JEMTEC INC.

Notes to the Financial Statements  
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## 6. Equipment (Continued)

|                                         | <b>Furniture</b> | <b>Monitoring<br/>Equipment</b> | <b>Total</b>    |
|-----------------------------------------|------------------|---------------------------------|-----------------|
| Costs, July 31, 2015                    | \$ 50,222        | \$ 325,503                      | \$ 375,725      |
| Additions                               | -                | -                               | -               |
| Costs, July 31, 2016                    | 50,222           | 325,503                         | 375,725         |
| Accumulated depreciation, July 31, 2015 | 47,110           | 307,030                         | 354,140         |
| Current year depreciation               | 623              | 18,456                          | 19,079          |
| Accumulated depreciation, July 31, 2016 | 47,733           | 325,486                         | 373,219         |
| <b>Net book value, July 31, 2016</b>    | <b>\$ 2,489</b>  | <b>\$ 17</b>                    | <b>\$ 2,506</b> |

## 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. Accounts payable and accrued liabilities

|                                       | <b>July 31,<br/>2017</b> | <b>July 31,<br/>2016</b> |
|---------------------------------------|--------------------------|--------------------------|
| Trade payable and accrued liabilities | <b>\$ 402,030</b>        | \$ 107,732               |
| Government service tax liabilities    | <b>45,592</b>            | 39,886                   |
| Dividend payable (Note 10)            | <b>113,088</b>           | 113,088                  |
|                                       | <b>\$ 560,710</b>        | \$ 260,706               |

## 9. Share capital and reserves

### a) Authorized

|                           |                                                                                                                      |
|---------------------------|----------------------------------------------------------------------------------------------------------------------|
| Common shares:            | Unlimited, no par value                                                                                              |
| First preference shares:  | Unlimited, no par value, issuable in series – None issued as at July 31, 2017 and 2016                               |
| Second preference shares: | 25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend – None issued as at July 31, 2017 and 2016 |

# JEMTEC INC.

Notes to the Financial Statements  
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## 9. Share capital and reserves (Continued)

### b) Stock options

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 TSXV regarding stock option awards, is 471,118. Options granted under the plan vest in six equal instalments over a period of 18 months, with the first instalment 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.

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 were subject to an 18 month vesting schedule. As at July 31, 2011, the options were fully vested.

During the year ended July 31, 2013, 15,000 options for a former officer had not been exercised and are no longer outstanding as a result of this departure.

As at July 31, 2014, 180,000 shares were issuable upon the exercise of outstanding stock options and 256,834 shares were available for future stock option grants.

On August 19, 2014, 90,000 shares of these stock options granted were exercised at a price of \$0.67 per share for consideration totaling \$60,300. The remaining stock options granted expired on September 17, 2014.

On December 3, 2015, the Company granted 346,830 stock options to officers and directors, at a price of \$0.345 per share, expiring on December 2, 2020. The fair value of the options granted was estimated on the date of grant at \$62,350 using the Black-Scholes option-pricing model. For the year ended July 31, 2017, \$15,555 (2016 – \$46,794) was recognized as share-based payments in the Statement of Operations. As at July 31, 2017, all of the options were vested and 4 shares are available for future stock option grants.

|                                                                                   |                  |
|-----------------------------------------------------------------------------------|------------------|
| Maximum number of shares issuable under the fixed stock option plan               | 471,118          |
| Options previously granted                                                        | <u>(124,284)</u> |
| Number of shares available for future stock option grants, July 31, 2015          | 346,834          |
| Options granted during the year ended July 31, 2016                               | <u>(346,830)</u> |
| Number of shares available for future stock option grants, July 31, 2017 and 2016 | <u>4</u>         |

Options outstanding at July 31, 2017 are as follows:

| Date of Grant    | Number of Options Granted | Expiry           | Exercise Price | Number Exercisable as at July 31, 2017 | Number Outstanding as at July 31, 2017 | Weighted Average Remaining Contractual Life (years) | Weighted Average Exercise Price |
|------------------|---------------------------|------------------|----------------|----------------------------------------|----------------------------------------|-----------------------------------------------------|---------------------------------|
| December 3, 2015 | 346,830                   | December 2, 2020 | \$0.345        | 346,830                                | 346,830                                | 3.34 years                                          | \$0.345                         |

# JEMTEC INC.

Notes to the Financial Statements  
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## 9. Share capital and reserves (Continued)

### b) Stock options (Continued)

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted or vested during the period:

|                                | July 31,<br>2017 | July 31,<br>2016 |
|--------------------------------|------------------|------------------|
| Risk-free interest rate        | 0.97%            | 0.97%            |
| Expected life of options       | 5 years          | 5 years          |
| Expected annualized volatility | 63.26%           | 63.26%           |
| Dividend yield                 | 0.00%            | 0.00%            |

## 10. Dividend

On September 11, 2014, the Company announced that the board of directors approved the payment of a one-time special dividend of \$0.59 per common share (the "Special Dividend"). The Special Dividend was payable to shareholders of record as of the close of business on September 19, 2014, resulting in a dividend declaration of \$1,466,536 on October 2, 2014. As of July 31, 2017 and 2016, \$1,353,448 of the dividends declared had been paid and \$113,088 is recorded in accounts payable and accrued liabilities (Note 8).

## 11. Related party transactions

The Company's related parties consist of six officers and directors (and their related companies), as follows:

| Position                    | Nature of Transaction                  |
|-----------------------------|----------------------------------------|
| Director                    | Director and member of audit committee |
| President, CEO and Director | Management services                    |
| Director                    | Director and member of audit committee |
| Director                    | Director                               |
| Director                    | Director and Chair of audit committee  |
| CFO                         | Management services                    |

There are standard compensation arrangements under which the directors of the Company are compensated for services in their capacity as directors (including any additional amounts payable for committee participation or special assignments). An annual payment of \$5,000 is made to each director and a fee of \$500 is paid per board meeting attended. In addition to these amounts, the Chair of the Audit Committee is paid an additional \$2,500 per year for the review of interim and annual financial reports. The directors did not receive compensation for services as consultants during the years ended July 31, 2017 and 2016.

# JEMTEC INC.

Notes to the Financial Statements  
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## 11. Related party transactions (Continued)

| <b>Nature of expenditures</b>      | <b>July 31,<br/>2017</b> | <b>July 31,<br/>2016</b> |
|------------------------------------|--------------------------|--------------------------|
| Accounting and administrative fees | \$ 30,000                | \$ 30,000                |
| Directors' fees                    | 47,921                   | 48,421                   |
| Salaries and benefits              | 276,462                  | 275,319                  |
| Share-based payments               | 15,555                   | 46,794                   |
|                                    | <b>\$ 369,938</b>        | <b>\$ 400,534</b>        |

During the year ended July 31, 2017, \$47,921 (2016 – \$48,421) was accrued or paid to the directors of the Company as directors' fees. At July 31, 2017, \$Nil (2016 – \$3,500) is due to the directors and is included in accounts payable and accrued liabilities.

During the year ended July 31, 2017, accounting fees of \$30,000 (2016 – \$30,000) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. As at July 31, 2017, \$2,625 (2016 – \$2,625) is owing to this officer and is included in accounts payable and accrued liabilities.

These transactions with related parties have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the parties. All amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

## 12. Key management compensation

Remuneration of key management comprises:

| <b>For the year ended</b> | <b>Accounting and<br/>administrative<br/>fees</b> | <b>Salaries and<br/>benefits</b> | <b>Directors'<br/>fees</b> | <b>Share-based<br/>payments</b> | <b>Total<br/>compensation</b> |
|---------------------------|---------------------------------------------------|----------------------------------|----------------------------|---------------------------------|-------------------------------|
| <b>July 31, 2017</b>      | <b>\$ 30,000</b>                                  | <b>\$ 276,462</b>                | <b>\$ 8,000</b>            | <b>\$ 5,185</b>                 | <b>\$ 319,647</b>             |
| July 31, 2016             | \$ 30,000                                         | \$ 275,319                       | \$ 8,000                   | \$ 15,598                       | \$ 328,917                    |

Share-based payments represent the cost to the directors' and officers' participation in the incentive stock option plan, as measured by the fair value of instruments granted accounted for in accordance with IFRS 2, *Share-based payments*. Refer to note 9(b) for details of this plan.

# JEMTEC INC.

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## 13. Income taxes

A reconciliation of the combined federal and provincial income taxes at the statutory rate of approximately 27% (2016 – 27%) and the Company's effective income tax recovery is as follows:

|                                     | July 31,<br>2017 | July 31,<br>2016 |
|-------------------------------------|------------------|------------------|
| Net income (loss) before taxes      | \$ 34,000        | \$ (149,370)     |
| Computed expected tax recovery      | 9,000            | (41,000)         |
| Permanent differences               | 4,000            | 13,000           |
| Effect of change in tax rate        | 3,000            | 2,000            |
| Change in tax assets not recognized | (16,000)         | 26,000           |
| Deferred income tax recovery        | \$ -             | \$ -             |

### Deferred tax assets

Deferred tax assets have not been recognized with respect to the following items:

|                                    |            |            |
|------------------------------------|------------|------------|
| Non-capital losses carried forward | \$ 196,000 | \$ 217,000 |
| Equipment and other                | 24,000     | 19,000     |
| Unrecognized deferred tax assets   | (220,000)  | (236,000)  |
| Net deferred tax assets            | \$ -       | \$ -       |

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profits will be available against which the Company can utilize the benefits.

As at July 31, 2017, the Company has non-capital losses of \$721,000 (2016 - \$792,000), which may be applied to reduce taxable income in future years. These non-capital losses expire from 2032 to 2036.

# JEMTEC INC.

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## 14. Fair value of financial instruments

At July 31, 2017, the Company held financial instruments carried at fair value on the Statements of Financial Position. The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

- **Level 1** – Unadjusted quoted prices in active markets for identical assets or liabilities. Cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and customer deposits are valued using quoted market prices and have been included in Level 1 of the fair value hierarchy.
- **Level 2** – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.
- **Level 3** – Inputs that are not based on observable market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at July 31, 2017 and 2016:

| July 31, 2017                                      | Level 1      | Level 2 | Level 3 | Total        |
|----------------------------------------------------|--------------|---------|---------|--------------|
| <b>Assets at fair value through profit or loss</b> |              |         |         |              |
| Cash and cash equivalents                          | \$ 1,325,822 | -       | -       | \$ 1,325,822 |
| <b>Loans and receivables</b>                       |              |         |         |              |
| Accounts receivables                               | 170,624      | -       | -       | 170,624      |
| <b>Other financial liabilities</b>                 |              |         |         |              |
| Accounts payable and accrued liabilities           | 515,118      | -       | -       | 515,118      |
| Customer deposits                                  | 17,198       | -       | -       | 17,198       |
| July 31, 2016                                      | Level 1      | Level 2 | Level 3 | Total        |
| <b>Assets at fair value through profit or loss</b> |              |         |         |              |
| Cash and cash equivalents                          | \$ 1,282,673 | -       | -       | \$ 1,282,673 |
| <b>Loans and receivables</b>                       |              |         |         |              |
| Accounts receivables                               | 141,390      | -       | -       | 141,390      |
| <b>Other financial liabilities</b>                 |              |         |         |              |
| Accounts payable and accrued liabilities           | 220,820      | -       | -       | 220,820      |
| Customer deposits                                  | 20,199       | -       | -       | 20,199       |

## 15. Commitment

The Company is committed under an agreement to lease office facilities to September 30, 2019. The Company is committed to making monthly payments of \$1,807 for these office facilities.