

JEMTEC INC.

Management Discussion and Analysis

October 31, 2018

This management discussion and analysis (“MD&A”) of JEMTEC Inc. (“Jemtec” or the “Company”) provides analysis of Jemtec’s financial results for the fiscal quarter ended October 31, 2018. The following information should be read in conjunction with the accompanying condensed interim financial statements and the notes thereto as at October 31, 2018. This MD&A is meant to be an update of the MD&A for the fiscal year ended July 31, 2018, dated November 28, 2018, 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, 2018

This Management Discussion and Analysis, dated December 18, 2018, accompanies the condensed interim financial statements of the Company for the quarter ended October 31, 2018.

Item 2. Overall Performance and Description of Business

JEMTEC is incorporated under the laws of Ontario, Canada. The Company is the leading provider of integrated technology systems for community-based corrections in Canada. The Company’s core business is the provision of services and technology for offender monitoring in Canadian federal and provincial correctional departments.

The common shares of JEMTEC Inc. trade through the facilities of the TSX-Venture Exchange under the symbol JTC.

JEMTEC’s mission is to lead the Canadian criminal justice market by providing our customers integrated services and state-of-the-art technology systems. Our vital essence as a company is to make our society a better and safer place. Each of our technologies and programs is designed with this corporate mission in mind and we believe that working together with criminal justice professionals, we can help ensure public protection and the delivery of effective and accountable correctional services.

The management approach of offering different levels of technology allows corrections, courts and police to select from a variety of options ensuring the correct level of offender control at the lowest overall cost. Offender location detection/verification technologies include: offender reporting via telephone contact, offender reporting kiosks with integrated database, GPS active and passive tracking, voice verification, electronic monitoring house arrest systems, remote alcohol in-home monitoring and private monitoring services.

JEMTEC’s business model is project driven. Since 1987, the Company has provided Canadian federal and provincial government agencies with offender monitoring services and technologies under project agreements with terms of 1 to 5 years.

Over the past year, most of the Company’s agreements have been renewed and/or extended.

In March 2015, Public Works and Government Services Canada (“PWGSC”) had confirmed that Jemtec’s solution has been evaluated as the winning proposal to provide Correctional Services of Canada (“CSC”) Electronic Monitoring services throughout Canada effective immediately for its propose Electronic Monitoring Research Pilot. The contract is for an initial three-year period with two additional one-year options selectable by CSC. In January 2018, PWGSC informed the Company that the first one-year option had been approved.

In February 2016, Nova Scotia Department of Justice, Correctional Services (“Correctional Services”) confirmed that Jemtec has been selected to provide offender monitoring services. The initial contract has a three year term with an option for two additional two additional two years extensions for a possible seven-year term.

In February 2017, the Company extended its agreement with the Province of Saskatchewan for a three-year term to March 31, 2020 with two optional extensions of up to one year each.

On March 14, 2017, Jemtec signed an agreement with Ontario Minister of Community Safety and Correctional Services (“MCSCS”) to provide electronic monitoring equipment, technology, central monitoring software and technical services in support of its electronic Supervision Program. This agreement is for a four-year term with two optional extensions of up to one year each.

Commencing December 2017 Corrections Manitoba discontinued its EM program.

Item 3. Selected Annual Information

We have summarized selected information from the Company’s condensed interim financial statements, which are prepared in Canadian dollars and in accordance with IAS 34, Interim Financial Reporting, as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Standards (“IFRS”) Interpretations Committee (“IFRICs”).

	For the three months ended October 31,		
	2018	2017	2016
Revenue	\$ 585,689	\$ 317,675	\$ 286,144
Expenses	409,211	310,650	275,513
Net income	\$ 176,478	\$ 7,025	\$ 10,631
Earnings per share			
Basic	\$ 0.07	\$ 0.00	\$ 0.00
Diluted	\$ 0.07	\$ 0.00	\$ 0.00

Item 4 and 5. Discussion of Operations and Summary of Quarterly Results

Unaudited summarized income statement information for the last eight quarters is as follows:

	Quarters Ended							
	October 31 2018	July 31 2018	April 30 2018	January 31 2018	October 31 2017	July 31 2017	April 30 2017	January 31 2017
Revenue	\$ 585,689	\$ 582,942	\$ 566,932	\$ 384,269	\$ 317,675	\$ 327,963	\$ 297,068	\$ 308,273
Expenses	409,211	486,453	447,732	372,292	310,650	312,456	289,547	307,908
Net income	\$ 176,478	\$ 96,489	\$ 119,200	\$ 11,977	\$ 7,025	\$ 15,507	\$ 7,521	\$ 365
Earnings per share								
Basic	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00
Diluted	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.00	\$ 0.00	\$ 0.01	\$ 0.00	\$ 0.00

Revenues

Revenues have increased by 84% during the quarter ended October 31, 2018 compared to the quarter ended October 31, 2017 primarily due to increased revenues from the CSC and MCSCS. The Company earned revenues on its agreements with the Provinces of Saskatchewan, Nova Scotia as well as the CSC and MCSCS. The Company also earned revenues from private bail clients.

	Quarters Ended October 31,		
	2018	2017	2016
Revenue			
Leasing, monitoring and activation	\$ 534,936	\$ 290,267	\$ 232,756
Bail	46,860	24,905	51,196
Interest income	3,893	2,503	2,192
Total revenue	\$ 585,689	\$ 317,675	\$ 286,144

Monitoring and activation income is recognized pursuant to various lease and rental agreements which specify the terms and conditions of the equipment provided and of 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, leasing and rental revenue over the term of the applicable operating services agreements. The usual term of service agreements is one to five years. Generally, customers have the option to renew or cancel the lease. Rental and service agreements upon the expiration of each term, or in certain circumstances, may be cancelled upon specific notice provided to the Company. In situations where agreements are terminated, and the monitoring equipment is rented on a daily basis, it is returned to the Company with no further obligation on behalf of the customer.

Expenses

During the quarter ended October 31, 2018, expenses increased by 32% compared to 2017 principally due to the fluctuations in depreciation, directors fees, equipment rent and installation, foreign exchange, monitoring and activation fees, office and share-based payments.

Category	Changes – fiscal quarter ended October 31, 2018 compared to fiscal quarter ended October 31, 2017
Depreciation	Increase: New Saskatchewan equipment depreciation.
Directors fees	Increase: New director compensation.
Equipment rent and installation	Decrease: Different mix of technology used by Nova Scotia.
Foreign exchange	Decrease: Due to fluctuations of foreign exchange rate.
Monitoring and activation fees	Increase: CSC and MCSCS program expansion.
Office	Increase: Greater use of courier services by CSC and MCSCS.
Share-based payments	Increase: New option plan.

Net Income

For the quarter ended October 31, 2018, the Company recorded a net income of \$176,478 compared to a net income of \$7,025 during the quarter ended October 31, 2017. This increase in net income is primarily due to the increase in revenues driven by CSC and MCSCS agreements.

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

At October 31, 2018, the Company had cash and cash equivalents of \$1,763,253 and working capital of \$1,493,649. All cash and cash equivalents are on deposit with a Schedule I bank in Canada in current or interest accruing accounts.

	As at October 31, 2018	As at July 31, 2018
Current assets	\$ 2,164,241	\$ 1,962,107
Equipment	168,618	196,545
Total assets	<u>2,332,859</u>	<u>2,158,652</u>
Current liabilities	670,592	680,820
Total liabilities	<u>670,592</u>	<u>680,820</u>
Stockholders' equity	<u>\$ 1,662,267</u>	<u>\$ 1,477,832</u>
Working capital	<u>\$ 1,493,649</u>	<u>\$ 1,281,287</u>

Working capital components include cash and cash equivalents in current or interest-bearing accounts, accounts receivable, prepaid expenses and deposits, accounts payable and accrued liabilities, customer deposits and deferred revenues.

Accounts receivable and accounts payable are expected to increase or decrease as sales volumes change. Deferred revenue will fluctuate in relation to the Company's private bail project. Private bail clients typically pay in advance for one or more months' monitoring.

The Company continues to monitor expenses, while at the same time is experiencing greater fluctuations in revenues from quarter to quarter. These fluctuations result as more customers move to rental agreements compared to lease agreements. Rental agreements allow Provincial and Federal customers the risk reduction and flexibility to start programs that in some cases would not have happened without the rental component. A combination of revenue fluctuation and expenses resulted in a net income of \$176,478 for the quarter ended October 31, 2018, compared to a net income of \$7,025 for the quarter ended October 31, 2017.

During its fiscal year ending July 31, 2019, the Company anticipates being profitable excluding expenses that may be incurred in connection with 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, 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 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. If the Company is required to purchase additional equipment to service an agreement, the Company would utilize its available cash to finance these capital expenditures.

Item 9. Transactions with Related Parties

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 \$10,000 (2017 - \$5,000) is made to each director and a fee of \$1,000 (2017 - \$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 three month periods ended October 31, 2018 and 2017.

Nature of expenditure	Three months ended October 31, 2018	Three months ended October 31, 2017
Accounting and administrative fees	\$ 9,000	\$ 7,500
Directors' fees	12,500	6,250
Salaries and benefits	70,045	67,249
Share-based payments	7,957	-
	\$ 99,502	\$ 80,999

During the quarter ended October 31, 2018, \$12,500 (October 31, 2017 – \$6,250) was accrued or paid to the directors of the Company as directors' fees. At October 31, 2018, \$12,500 (July 31, 2018 - \$Nil) is due to the directors and is included in accounts payable and accrued liabilities.

During the quarter ended October 31, 2018, accounting fees of \$9,000 (October 31, 2017 - \$7,500) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. At October 31, 2018, \$3,150 (July 31, 2018 - \$6,300) 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.

Item 12. Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS 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 3 - Significant Accounting Policies - in the notes to the Company's audited financial statements for the years ended July 31, 2018 and 2017 for more information concerning the accounting principles used in the preparation of the Company's audited financial statements.

Item 13. Future Changes in Accounting Standards

A number of new standards, amendments to standards and interpretations are not yet effective as of October 31, 2018 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 standard when it becomes effective:

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.

Item 14. Financial Instruments and Other Instruments

Details of the Company's financial instruments, management's assessment of their related risks and details of management of those risks are as follows:

Financial Risk Management

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities (excluding government service tax liabilities), and customer deposits.

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 October 31, 2018, the Company had \$1,763,253 in cash balances.

The fair values of the Company's financial instruments approximate their book values due to the short-term nature of these instruments.

Financial Instruments Risk Exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes. The Company does not have any asset backed commercial paper.

Credit Risk

The Company's main exposure to credit risk is on its bank accounts. All cash balances are held in a Canadian Schedule I bank.

Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2018, the Company had cash of \$1,763,253 to settle \$670,592 in current liabilities, which fall due for payment within twelve months of the statement of financial position.

The Company's cash is invested in business accounts which are available on demand.

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.

Foreign Exchange Risk

As at October 31, 2018, all of the Company's cash balances were held in Canada in Canadian dollars. As a result, the Company's exposure to fluctuations in foreign exchange rates on cash is limited.

Item 15. Other Information**Share Capital**

The Company has only three classes of share capital:

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

As at October 31, 2018 and December 18, 2018, 2,485,654 common shares were outstanding.

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 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.

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 quarter ended October 31, 2018, \$Nil (October 31, 2017 - \$Nil) was recognized as share-based payments in the Statement of Operations. As at October 31, 2018, and December 18, 2018, all of the options were vested.

On May 14, 2018, the Company granted 125,000 stock options to officers and directors, at a price of \$0.75 per share, expiring on May 10, 2028. The fair value of the options granted was estimated on the date of grant at \$62,000 using the Black-Scholes option-pricing model. For the quarter ended October 31, 2018, \$7,957 (October 31, 2017 - \$Nil) was recognized as share-based payments in the Statement of Operations. As at October 31, 2018, one-fifth of the options were vested.

One-time special dividend

On September 11, 2014, the Company announced that the board of directors has 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. The Special Dividend resulted in a dividend declaration of \$1,466,536 on October 2, 2014. As of October 31, 2018 and December 18, 2018, \$1,353,566 (2017 - \$1,353,448) of the dividends declared had been paid and \$112,970 is recorded in accounts payable and accrued liabilities.

Warrants

None outstanding.

Disclosure Controls and Procedures

The Company has controls and procedures in place to provide reasonable assurance that all required disclosure under securities legislation is recorded, processed and reported within the applicable time periods and to ensure that required information is gathered and communicated to management so that decisions about timely disclosure can be made. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures for the quarter ended October 31, 2018 and have found those controls to be adequate for the above purposes. There have been no significant changes in the Company's disclosure controls or in other factors that could significantly affect disclosure controls subsequent to the date the Company carried out its evaluation.

Internal Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's internal controls and procedures for the quarter ended October 31, 2018. They have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that all material financial information relating to the Company was made known to them by others within the Company in order for them to complete their analysis and review of the financial position and results of the Company.

This evaluation of the design of internal controls over financial reporting ("ICFR") for the Company resulted in the identification of internal control deficiencies which are not atypical for a company of this size including lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters and insufficient in-house expertise to deal with complex accounting, reporting and taxation issues. There have been no changes in the Company's ICFR during the quarter ended October 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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