

JEMTEC INC.

Management Discussion and Analysis

July 31, 2019

This management discussion and analysis (“MD&A”) of JEMTEC Inc. (“Jemtec” or the “Company”) provides analysis of Jemtec’s financial results for the fiscal year ended July 31, 2019. The following information should be read in conjunction with the accompanying audited financial statements and the notes to the audited financial statements as at July 31, 2019.

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: November 14, 2019

This Management Discussion and Analysis, dated November 14, 2019, accompanies the audited financial statements of the Company for the fiscal year ended July 31, 2019.

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.

On March 5, 2015, Public Works and Government Services Canada (“PWGSC”) 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 March 2019, PWGSC confirmed that it was going to exercise the additional (second) one-year option.

On February 12, 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 years extensions for a possible seven-year term. In March 2019, NS Correctional Services sent the Company an extension agreement for signature outlining its plan to exercise its first two-year additional extension.

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.

In March 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.

Item 3. Selected Annual Information

We have summarized selected information from the Company’s audited financial statements, which are prepared in Canadian dollars and in accordance with International Financial Reporting Standards (“IFRS”).

	For the years ended July 31,		
	2019	2018	2017
Revenue	\$ 2,330,206	\$ 1,851,818	\$ 1,219,448
Expenses	1,771,996	1,617,127	1,185,424
Income tax	68,000	-	-
Net income	490,210	234,691	34,024
Earnings per share			
Basic	\$ 0.19	\$ 0.09	\$ 0.01
Diluted	\$ 0.17	\$ 0.09	\$ 0.01

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							
	July 31 2019	April 30 2019	January 31 2019	October 31 2018	July 31 2018	April 30 2018	January 31 2018	October 31 2017
Revenue	\$ 590,963	\$ 551,437	\$ 602,117	\$ 585,689	\$ 582,942	\$ 566,932	\$ 384,269	\$ 317,675
Expenses	498,234	408,508	456,043	409,211	486,453	447,732	372,292	310,650
Income tax	68,000	-	-	-	-	-	-	-
Net income	\$ 24,729	\$ 142,929	\$ 146,074	\$ 176,478	\$ 96,489	\$ 119,200	\$ 11,977	\$ 7,025
Earnings per share								
Basic	\$ 0.01	\$ 0.05	\$ 0.06	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.00	\$ 0.00
Diluted	\$ 0.01	\$ 0.05	\$ 0.05	\$ 0.07	\$ 0.04	\$ 0.05	\$ 0.00	\$ 0.00

Revenues

Revenues have increased by 26% during the year ended July 31, 2019 compared to for the year ended July 31, 2018 primarily due to increased revenues from all current agreements, including private bail clients. The Company earned revenues on its agreements with the Provinces of Saskatchewan, Nova Scotia as well as the CSC and MSCSC. The Company also earned revenues from private bail clients by presenting the release plans for court cases.

	Years Ended July 31,		
	2019	2018	2017
Revenue			
Leasing, monitoring and activation	\$ 2,123,876	\$ 1,712,664	\$ 1,032,386
Bail	187,132	127,419	178,162
Interest income	19,198	11,735	8,900
Total revenue	\$ 2,330,206	\$ 1,851,818	\$ 1,219,448

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 year ended July 31, 2019, expenses increased by 10% compared to the year ended July 31, 2018 due primarily to fluctuations in consulting, depreciation, directors' fees, equipment rent and installation, monitoring and activation fees, repairs and maintenance, salaries and benefits and share-based payments.

Category	Changes – fiscal year ended July 31, 2019 compared to fiscal year ended July 31, 2018
Consulting	Increase: New charge rate.
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.
Monitoring and activation fees	Increase: CSC and MSCSC program expansion.
Repairs and maintenance	Increase: CSC and MSCSC program expansion.
Salaries and benefits	Increase: Bonus under an incentive bonus plan.
Share-based payments	Decrease: New option plan.

Income Tax

For the year ended July 31, 2019, the Company recognized a current income tax expense of \$68,000 (2018 - \$Nil). The current income tax expense was related to income tax in Canada.

Net Income

For the year ended July 31, 2019, the Company recorded a net income of \$490,210, compared to a net income of \$234,691 during the year ended July 31, 2018. This increase in net income is primarily due to the increase in revenues driven by an increase in revenue on all current agreements, including private bail clients.

Item 6 and 7. Liquidity and Capital Resources

Liquidity

At July 31, 2019, the Company had cash and cash equivalents of \$2,194,824 and working capital of \$2,097,070. All cash and cash equivalents are on deposit with a Schedule I bank in Canada in current or interest accruing accounts.

	As at July 31, 2019	As at July 31, 2018
Current assets	\$ 2,503,759	\$ 1,962,107
Equipment	84,839	196,545
Total assets	<u>2,588,598</u>	<u>2,158,652</u>
Current liabilities	406,689	680,820
Total liabilities	<u>406,689</u>	<u>680,820</u>
Shareholders' equity	<u>\$ 2,181,909</u>	<u>\$ 1,477,832</u>
Working capital	<u>\$ 2,097,070</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, deferred revenues and income tax payable.

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 come 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 a 26% increase in revenues and a 10% increase in expenses resulted in a net income of \$490,210 for the year ended July 31, 2019 after a tax provision of \$68,000, compared to a net income of \$234,691 for the year ended July 31, 2018 where no tax provision was made due to tax loss carry forwards.

During its fiscal year ending July 31, 2020, 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). Commencing in the quarter ended January 31, 2019, an annual payment of \$10,000 (2018 - \$10,000) is made to four director, \$15,000 (2018 - \$10,000) is made to the Chairman and a fee of \$1,000 (2018 - \$1,000) is paid per board meeting attended. In addition to these amounts, the Chair of the Audit Committee is paid an additional \$4,000 (2018 - \$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, 2019 and 2018.

Nature of expenditure	July 31, 2019	July 31, 2018
Accounting and administration fees	\$ 36,000	\$ 33,500
Directors' fees	91,500	78,000
Salary and benefits	338,726	278,426
Share-based payments	21,244	35,059
	\$ 487,470	\$ 369,938

During the year ended July 31, 2019, \$91,500 (2017 – \$78,000) was accrued or paid to the directors of the Company as directors' fees. As at July 31, 2019, \$Nil (2018 – \$Nil) is due to the directors.

During the year ended July 31, 2019, accounting fees of \$36,000 (2018 – \$33,500) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. As at July 31, 2019, \$3,150 (2018 – \$6,300) is owing to this officer and is included in accounts payable and accrued liabilities.

During the year ended July 31, 2019, \$50,400 (2018 – \$Nil) was accrued to the President of the Company under an incentive bonus plan. As at July 31, 2019, \$50,400 (2018 – \$Nil) 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 10. Fourth Quarter

	For the fourth quarters ended July 31,	
	2019	2018
Revenue		
Leasing, monitoring and activation	\$ 585,116	\$ 579,653
Interest income	5,847	3,289
	590,963	582,942
Expenses		
Accounting and administration fees	9,000	9,000
Consulting fees	30,000	28,000
Depreciation	27,939	27,936
Directors' fees	36,250	33,580
Equipment rent and installation	5,442	9,899
Foreign exchange gain/loss	764	6,216
Monitoring and activation fees	190,048	202,938
Office	33,061	33,394
Professional fees	4,710	11,376
Repairs and maintenance	19,910	6,335
Salaries and benefits	125,171	73,188
Share-based payments	3,117	35,059
Shareholder communications	3,551	3,064
Travel	9,271	6,468
	498,234	486,453
Income before income taxes	92,732	96,489
Income tax expense	68,000	-
Net income and comprehensive income for the period	\$ 24,729	\$ 96,489
Earnings per share		
Basic	\$ 0.01	\$ 0.04
Diluted	\$ 0.01	\$ 0.04
Weighted-average number of shares outstanding		
Basic	2,716,874	2,485,654
Diluted	2,896,183	2,659,846

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, 2019 and 2018 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 July 31, 2019 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:

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 16 is effective for annual periods beginning on or after 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 July 31, 2019, the Company had \$2,194,824 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 July 31, 2019, the Company had cash of \$2,194,824 to settle \$406,689 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 July 31, 2019, all 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 – None issued as at July 31, 2019 and 2018
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend – None issued as at July 31, 2019 and 2018

At July 31, 2019 and November 14, 2019, 2,716,874 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 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 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 with the following assumptions: i) risk-free interest rate of 0.97%; ii) expected life of 5 years; iii) expected annualized volatility of 63.26%; and iv) no dividend yield. For the year ended July 31, 2019, \$Nil (2018 – \$Nil) was recognized as share-based payments in the Statement of Operations. As at July 31, 2019, all of the options were vested.

On January 7, 2019, 102,805 shares of these stock options granted were exercised at a price of \$0.345 per share for consideration totaling \$35,468. On April 11, 2019, 70,610 of these stock options granted were exercised at a price of \$0.345 per share for consideration totaling \$24,360. On April 24, 2019, 57,805 shares of these stock options granted were exercised at a price of \$0.345 per share for consideration totaling \$19,943.

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 13, 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 with the following assumptions: i) risk-free interest rate of 2.43%; ii) expected life of 10 years; iii) expected annualized volatility of 55.19%; and iv) no dividend yield. For the year ended July 31, 2019, \$21,244 (2018 – \$35,059) was recognized as share-based payments in the Statements of Operations and Comprehensive Income. As at July 31, 2019, three-fifths 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 at July 31, 2019 and November 14, 2019, 1,353,684 (2018 - \$1,353,566) of the dividends declared had been paid and \$Nil (2018 - \$112,970) is recorded in accounts payable and accrued liabilities.

During the year ended July 31, 2019, the Company derecognized \$112,852 (2018 - \$Nil) in dividends payable. These dividends were outstanding for more than four years since the date declaration and as such are no longer payable under the terms of the dividend.

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 year ended July 31, 2019 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 year ended July 31, 2019. 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 year ended July 31, 2019 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.