

**JEMTEC Inc.**

**Financial Statements**  
**Years Ended July 31, 2020 and 2019**  
*(Expressed in Canadian dollars)*

## INDEPENDENT AUDITORS' REPORT

### TO THE SHAREHOLDERS OF JEMTEC INC.

#### *Opinion*

We have audited the financial statements of JEMTEC Inc. (the "Company"), which comprise:

- ♦ the statements of financial position as at July 31, 2020 and 2019;
- ♦ the statements of operations and comprehensive income for the years then ended;
- ♦ the statements of changes in shareholders' equity for the years then ended;
- ♦ the statements of cash flows for the years then ended; and
- ♦ the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

#### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

#### *Other Information*

Management is responsible for the other information. The other information comprises of Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, and remain alert for indications that the other information appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

#### *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

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**Vancouver**  
1700 – 475 Howe St  
Vancouver, BC V6C 2B3  
T: 604 687 1231  
F: 604 688 4675

**Langley**  
305 – 9440 202 St  
Langley, BC V1M 4A6  
T: 604 282 3600  
F: 604 357 1376

**Nanaimo**  
201 – 1825 Bowen Rd  
Nanaimo, BC V9S 1H1  
T: 250 755 2111  
F: 250 984 0886

## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ♦ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ♦ Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- ♦ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ♦ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- ♦ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditors' report is Kevin Kwan.

*Smythe LLP*

Chartered Professional Accountants

Vancouver, British Columbia  
November 26, 2020

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**Vancouver**  
1700 – 475 Howe St  
Vancouver, BC V6C 2B3  
T: 604 687 1231  
F: 604 688 4675

**Langley**  
305 – 9440 202 St  
Langley, BC V1M 4A6  
T: 604 282 3600  
F: 604 357 1376

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# JEMTEC INC.

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

For the years ended July 31, 2020 and 2019

	Notes	2020	2019
<b>Revenue</b>			
Leasing, monitoring, activation and bail		\$ 2,348,663	\$ 2,311,008
Interest income		18,516	19,198
		<b>2,367,179</b>	2,330,206
<b>Expenses</b>			
Accounting and administrative fees	12, 13	36,000	36,000
Consulting fees		120,000	120,000
Depreciation	7	94,120	111,706
Directors' fees	12, 13	87,480	91,500
Equipment rent and installation		54,134	14,944
Foreign exchange loss		15,437	15,808
Lease interest		506	-
Monitoring and activation fees		812,810	757,265
Office		134,279	130,112
Professional fees		33,734	26,296
Repairs and maintenance		66,895	61,960
Salaries and benefits	12, 13	285,929	338,726
Share-based payments	12, 13	5,695	21,244
Shareholder communications		19,057	18,012
Travel		22,373	28,423
		<b>1,788,449</b>	1,771,996
Income before income taxes		578,730	558,210
Income tax expense	14	(170,000)	(68,000)
<b>Net income and comprehensive income for the year</b>		<b>\$ 408,730</b>	<b>\$ 490,210</b>
<b>Earnings per share</b>			
Basic		\$ 0.15	\$ 0.19
Diluted		\$ 0.14	\$ 0.17
<b>Weighted-average number of shares outstanding</b>			
Basic	10	2,716,874	2,581,021
Diluted	10	2,862,166	2,831,257

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, 2020 and 2019

	Notes	2020	2019
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,093,645	\$ 2,194,824
Accounts receivable		206,878	291,554
Prepaid expenses and deposits		18,290	17,381
<b>Total current assets</b>		<b>2,318,813</b>	<b>2,503,759</b>
Property and equipment	7	18,250	84,839
<b>Total assets</b>		<b>\$ 2,337,063</b>	<b>\$ 2,588,598</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9, 12	\$ 288,425	\$ 322,475
Customer deposits		-	8,198
Deferred revenue		11,002	8,016
Income taxes payable		103,219	68,000
Current portion of lease liability	6	10,361	-
<b>Total current liabilities</b>		<b>413,007</b>	<b>406,689</b>
Lease liability	6	7,035	-
<b>Total liabilities</b>		<b>420,042</b>	<b>406,689</b>
<b>Shareholders' equity</b>			
Share capital	10	1,375,821	1,375,821
Share-based payments reserves	10	461,460	455,765
Retained earnings		79,740	350,323
<b>Total shareholders' equity</b>		<b>1,917,021</b>	<b>2,181,909</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,337,063</b>	<b>\$ 2,588,598</b>

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

Approved on behalf of the Board and authorized for issue on November 26, 2020:

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"Eric Caton" Director

\_\_\_\_\_  
"Leslie Markow" Director

# JEMTEC INC.

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

For the years ended July 31, 2020 and 2019

	<b>Number of Common Shares</b>	<b>Share Capital</b>	<b>Share-Based Payments Reserves</b>	<b>Retained Earnings</b>	<b>Total Shareholders' Equity</b>
Balance, July 31, 2018	2,485,654	\$ 1,296,050	\$ 434,521	\$ (252,739)	\$ 1,477,832
Stock options exercised	231,220	79,771	-	-	79,771
Share-based payments	-	-	21,244	-	21,244
Derecognition of dividend payable (Note 11)	-	-	-	112,852	112,852
Net income for the year	-	-	-	490,210	490,210
Balance, July 31, 2019	2,716,874	1,375,821	455,765	350,323	2,181,909
Share-based payments	-	-	5,695	-	5,695
Special dividend (Note 11)	-	-	-	(679,313)	(679,313)
Net income for the year	-	-	-	408,730	408,730
<b>Balance, July 31, 2020</b>	<b>2,716,874</b>	<b>\$ 1,375,821</b>	<b>\$ 461,460</b>	<b>\$ 79,740</b>	<b>\$ 1,917,021</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, 2020 and 2019

	2020	2019
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Net income for the year	\$ 408,730	\$ 490,210
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation	94,120	111,706
Share-based payments	5,695	21,244
Interest on lease liability	506	-
Changes in non-cash operating working capital		
Accounts receivable	84,676	87,120
Prepaid expenses and deposits	(909)	(1,500)
Accounts payable and accrued liabilities	(34,050)	(218,589)
Customer deposits	(8,198)	(8,500)
Deferred revenue	2,986	(2,190)
Income taxes payable	35,219	68,000
<b>Net cash provided by operating activities</b>	<b>588,775</b>	<b>547,501</b>
<b>Financing activities</b>		
Stock options exercised	-	79,771
Lease payment	(10,641)	-
Dividend payment	(679,313)	-
<b>Net cash (used in) provided by financing activities</b>	<b>(689,954)</b>	<b>79,771</b>
<b>(Decrease) increase in cash during the year</b>	<b>(101,179)</b>	<b>627,272</b>
Cash and cash equivalents, beginning of year	2,194,824	1,567,552
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,093,645</b>	<b>\$ 2,194,824</b>
<b>Cash and cash equivalents</b>		
Cash	\$ 567,183	\$ 686,877
Short-term deposits	1,526,462	1,507,947
	<b>\$ 2,093,645</b>	<b>\$ 2,194,824</b>
<b>Supplementary Information</b>		
Interest received	\$ 18,516	\$ 19,198
Interest paid	\$ 1,409	\$ -
Income taxes paid	\$ 134,781	\$ -

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

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 1. Nature of operations

JEMTEC Inc. (the “Company”) was incorporated under the Ontario 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”).

Effective August 1, 2019, the Company adopted IFRS 16 Leases (“IFRS 16”). IFRS 16 was adopted using the modified retrospective approach with no restatement of comparative periods, as permitted by the transition provisions of the standard. As a result of the application of IFRS 16, the Company changed its accounting policies for the recognition of leases as described in note 3.

### 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 property and 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, 2020 and 2019.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(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 and judgments relate to:

#### Asset carrying values and impairment charges

Judgment is required in determining whether property and equipment and other assets have indicators of impairment. Determining the amount of impairment of property and equipment requires an estimation of the recoverable amount, which is defined as the higher of fair value less the cost of disposal or value in use. Many factors used in assessing recoverable amounts are outside of the control of management and it is reasonably likely that assumptions and estimates will change from period to period. These changes may result in future impairments.

#### Estimation of asset lives

Depreciation and amortization of the Company's property and equipment incorporate estimates of useful lives and residual values. These estimates may change as market conditions change and the future economic benefits from the use of the asset changes, thereby impacting the useful life and residual value of the property and equipment. Any revisions to useful life are accounted for prospectively.

#### Recognition of deferred taxes

The Company estimates the expected manner and timing of the realization or settlement of the carrying value of its tax assets and liabilities and applies tax rates that are enacted or substantively enacted on the estimated dates of realization or settlement.

#### Share-based payments

The fair value of share-based payments is subject to the limitations of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. As the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the expected volatility of the Company's share prices and expected forfeiture rates, changes in subjective input assumptions can materially affect the fair value estimate.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies

These financial statements were authorized for issue by the Board of Directors on November 26, 2020.

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) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. The cost of an item of property and 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. Property and 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
Right-of-use asset	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.

### c) Revenue recognition

The Company has applied IFRS 15 to the revenue generated from the sale of parts which are required to repair and maintain the monitoring equipment, and to the revenue generated for maintenance and monitoring services.

Rental and monitoring income are 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 are recognized on a straight-line basis over the terms of the leases.

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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### 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

#### i) Financial assets

The Company classifies its financial assets in the following categories: at fair value through profit or loss (“FVTPL”), fair value through other comprehensive income (“FVTOCI”), or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. Measurement and classification of financial assets is dependent on the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

**Financial assets at FVTPL:** Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statement of operations. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the statement of operations in the period in which they arise.

**Financial assets at FVTOCI:** Financial assets carried at FVTOCI are initially recorded at fair value plus transaction cost directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as “financial asset at fair value through other comprehensive income” in other comprehensive income.

**Financial assets at amortized cost:** Financial assets at amortized cost are initially recognized at fair value plus transaction costs and subsequently carried at amortized cost less any impairment. They are classified as current assets or non-current assets based on their maturity date.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

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

#### ii) Financial liabilities

Financial liabilities are recognized initially at fair value, net of transaction costs incurred and are subsequently measured at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in profit and loss over the period to maturity using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

#### iii) Derecognition of financial instruments

When an existing financial liability is replaced by another from the same counterparty with substantially different terms, or the terms of an existing liability are substantially modified, it is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are altered, but the changes are considered non-substantial, it is accounted for as a modification to the existing financial liability. Where a liability is substantially modified, it is considered to be extinguished and a gain or loss is recognized in net earnings based on the difference between the carrying amount of the liability derecognized and the fair value of the revised liability. Where a liability is modified in a non-substantial way, the amortized cost of the liability is remeasured based on the new cash flows and a gain or loss is recorded in net earnings.

The following table shows measurement categories as at July 31, 2020 for each of the Company's financial assets and financial liabilities:

<b>Financial Instrument</b>	
Cash and cash equivalents	FVTPL
Accounts receivable	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Customer deposits	Amortized cost
Lease liability	Amortized cost

### 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 10(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 the Statements of Operations and Comprehensive Income such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to reserves.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### f) Share-based payments (Continued)

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 per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings 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.

### 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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 3. Significant accounting policies (Continued)

### h) Income taxes (Continued)

#### ii) Deferred income tax (Continued)

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) Leases

The Company has adopted IFRS 16 Leases effective August 1, 2019 using the modified retrospective method. IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

On adoption of IFRS 16, the Company recognized a lease liability (Note 6) in relation to a vehicle lease, which had previously been classified as operating lease under the principles of IAS 17 Lease with a corresponding right of use asset for the underlying vehicle. The Company applied the exemption not to recognize right-of-use assets and lease liabilities for short-term leases on its office space lease. On adoption of IFRS 16, there was no adjustment to the opening balance in retained earnings at August 1, 2019 under the modified retrospective approach.

### j) Future accounting changes

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2020. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to clarify the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity. The amendment is effective for annual reporting periods beginning on or after January 1, 2022.

IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) was amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendment is effective for annual reporting periods beginning on or after January 1, 2020.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2020 and 2019  
(Expressed in Canadian Dollars)

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## 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, 2020, the Company had cash balances on deposit that exceeded federally insured limits by \$1,893,645 (2019 – \$1,994,824). All of these funds are on deposit with Schedule I banks in Canada.

The Company is a Canadian distributor of Stop LLC, SuperCom Inc., Omnilink Systems Inc. and 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. 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, 2020, the Company had cash of \$2,093,645 (2019 - \$2,194,824) to settle \$413,007 (2019 - \$406,689) 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.

# JEMTEC INC.

Notes to the Financial Statements  
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## 4. Financial instruments and financial risk management (Continued)

### 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.

## 5. Capital management

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. There was no change to the Company's capital management policy during the year ended July 31, 2020.

## 6. Right-of-Use Asset and Lease Liability

The Company has a lease agreement for a company vehicle. Upon transition to IFRS 16, the Company recognized \$27,531 for a right-of-use asset and \$27,531 for a lease liability. The continuity of the right-of-use asset and lease liability for the year ended July 31, 2020 is as follows:

<b>Right-of-use asset</b>	
Value of right-of-use asset as at August 1, 2019	\$ 27,531
Depreciation	(10,324)
<b>Value of right-of-use asset as at July 31, 2020</b>	<b>\$ 17,207</b>
<b>Lease liability</b>	
Lease liability recognized as of August 1, 2019	\$ 27,531
Lease payments	(10,641)
Lease interest	506
<b>Lease liability recognized as of July 31, 2020</b>	<b>\$ 17,396</b>
Current portion	\$ 10,361
Long-term portion	7,035
	<b>\$ 17,396</b>

During the year, the Company incurred short-term lease expense for office space of \$19,864.

# JEMTEC INC.

Notes to the Financial Statements  
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## 7. Property and Equipment

	Right-of-use Asset	Furniture	Monitoring Equipment	Total
Costs, July 31, 2019	\$ -	\$ 50,222	\$ 603,953	\$ 654,175
Additions	27,531	-	-	27,531
Costs, July 31, 2020	27,531	50,222	603,953	681,706
Accumulated depreciation, July 31, 2019	-	48,918	520,418	569,336
Depreciation for the year	10,324	261	83,535	94,120
Accumulated depreciation, July 31, 2020	10,324	49,179	603,953	663,456
<b>Net book value, July 31, 2020</b>	<b>\$ 17,207</b>	<b>\$ 1,043</b>	<b>\$ -</b>	<b>\$ 18,250</b>

	Furniture	Monitoring Equipment	Total
Costs, July 31, 2018	\$ 50,222	\$ 603,953	\$ 654,175
Additions	-	-	-
Costs, July 31, 2019	50,222	603,953	654,175
Accumulated depreciation, July 31, 2018	48,592	409,038	457,630
Current year depreciation	326	111,380	111,706
Accumulated depreciation, July 31, 2019	48,918	520,418	569,336
<b>Net book value, July 31, 2019</b>	<b>\$ 1,304</b>	<b>\$ 83,535</b>	<b>\$ 84,839</b>

# JEMTEC INC.

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## 8. 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.

## 9. Accounts payable and accrued liabilities

	July 31, 2020	July 31, 2019
Trade payable and accrued liabilities	\$ 187,814	\$ 226,595
Government service tax and remittance liabilities	100,611	95,880
	<b>\$ 288,425</b>	<b>\$ 322,475</b>

## 10. 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, 2020 and 2019
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend – None issued as at July 31, 2020 and 2019

As at July 31, 2020, 2,716,874 common shares were outstanding.

### 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 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 years ended July 31, 2016 and 2017, share-based payments were fully recognized in the Statement of Operations. As at July 31, 2020, all of the options were vested.

# JEMTEC INC.

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## 10. Share capital and reserves (Continued)

### b) Stock options (Continued)

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, 2020, \$5,695 (2019 – \$21,244) was recognized as share-based payments in the Statements of Operations and Comprehensive Income. As at July 31, 2020, all of the options were vested.

A summary of changes in stock options is presented below:

	Number of Options	Weighted Averaged Exercise Price
Balance, July 31, 2018	471,830	\$0.452
Exercised, January 7, 2019	(102,805)	\$0.345
Exercised, April 11, 2019	(70,610)	\$0.345
Exercised, April 24, 2019	(57,805)	\$0.345
<b>Balance, July 31, 2019 and 2020</b>	<b>240,610</b>	<b>\$0.555</b>

Options outstanding at July 31, 2020 are as follows:

Date of Grant	Number of Options Granted	Expiry	Exercise Price	Number Exercisable as at July 31, 2020	Number Outstanding as at July 31, 2020	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price
December 3, 2015	346,830	December 2, 2020	\$0.345	115,610	115,610	0.34 years	\$0.345
May 14, 2018	125,000	May 13, 2028	\$0.750	125,000	125,000	7.78 years	\$0.750
	471,830			240,610	240,610	4.21 years	\$0.555

# JEMTEC INC.

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## 10. Share capital and reserves (Continued)

### c) Earnings per share

The following is a reconciliation of the denominator in calculating basic and diluted earnings per share:

	July 31, 2020	July 31, 2019
Net income for the year	\$ 408,730	\$ 490,210
Basic weighted average number of shares outstanding	2,716,874	2,581,021
Effect on dilutive securities from stock options	145,292	250,236
Diluted weighted average number of shares outstanding	2,862,166	2,831,257
Earnings per share, basic	\$ 0.15	\$ 0.19
Earnings per share, diluted	\$ 0.14	\$ 0.17

## 11. Dividend

The Company declared a one-time special dividend in the aggregate amount of \$679,219 (\$0.25 per share) payable to the holders of the issued and outstanding common shares in the capital of the Company. The dividend was payable on February 10, 2020 to the shareholders on record of the Company as of January 17, 2020. On February 10, 2020, the Company distributed the dividend to a third-party company to release the dividend to shareholders. As of July 31, 2020, \$Nil of the dividend declared is recorded in accounts payable and accrued liabilities.

During the year ended July 31, 2019, the Company derecognized \$112,852 (2018 - \$Nil) in dividend payable from the 2014 dividend payment. These dividends were outstanding for more than four years since the date of declaration and as such are no longer payable under the terms of the dividend. The amount of dividends derecognized has been reflected as an adjustment to retained earnings. During the year ended July 31, 2020, \$94 of the derecognized dividends was claimed and paid to a shareholder.

## 12. Related party transactions

The Company's related parties consist of five officers and directors (and companies controlled by them), as follows:

<u>Position</u>	<u>Nature of Transaction</u>
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 \$10,000 (2019 - \$10,000) is made to three (2019 - four) directors, \$15,000 (2019 - \$15,000) is made to the Chairman and a fee of \$1,000 (2019 - \$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 (2019 - \$4,000) 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, 2020 and 2019.

# JEMTEC INC.

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## 12. Related party transactions (Continued)

<b>Nature of expenditures</b>	<b>July 31, 2020</b>	<b>July 31, 2019</b>
Accounting and administrative fees	\$ 36,000	\$ 36,000
Directors' fees	87,480	91,500
Salaries and benefits	285,929	338,726
Share-based payments	5,695	21,244
	<b>\$ 415,104</b>	<b>\$ 487,470</b>

During the year ended July 31, 2020, \$87,480 (2019 – \$91,500) was accrued or paid to the directors of the Company as directors' fees.

During the year ended July 31, 2020, accounting fees of \$36,000 (2019 – \$36,000) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. As at July 31, 2020, \$3,150 (2019 – \$3,150) is owing to this officer and is included in accounts payable and accrued liabilities.

During the year ended July 31, 2020, \$Nil (2019 - \$50,400) was accrued to the President of the Company under an incentive bonus plan.

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.

## 13. Key management compensation

Remuneration of key management comprises:

<b>For the year ended</b>	<b>Accounting and administrative fees</b>	<b>Salaries and benefits</b>	<b>Directors' fees</b>	<b>Share-based payments</b>	<b>Total compensation</b>
<b>July 31, 2020</b>	<b>\$ 36,000</b>	<b>\$ 285,929</b>	<b>\$ 16,000</b>	<b>\$ 1,139</b>	<b>\$ 339,068</b>
July 31, 2019	\$ 36,000	\$ 338,726	\$ 16,000	\$ 4,249	\$ 394,975

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 10(b) for details of this plan.

# JEMTEC INC.

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## 14. Income taxes

A reconciliation of the combined federal and provincial income taxes at the statutory rate of approximately 27% (2019 – 27%) and the Company's effective income tax expense is as follows:

	July 31, 2020	July 31, 2019
Net income before taxes	<u>\$ 578,730</u>	<u>\$ 558,210</u>
Computed expected tax expense	158,000	152,000
Permanent differences	2,000	6,000
Effect of change in tax rate and other	4,000	(1,000)
Change in non-capital losses tax asset	-	(99,000)
Change in capital tax asset	<u>6,000</u>	<u>10,000</u>
Income tax expense	<u>\$ 170,000</u>	<u>\$ 68,000</u>

### Deferred tax assets

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

Property and equipment	\$ 58,000	\$ 57,000
Lease liability	5,000	-
Unrecognized deferred tax assets	<u>(63,000)</u>	<u>(57,000)</u>
Net deferred tax assets	<u>\$ -</u>	<u>\$ -</u>

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.

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## 15. Fair value of financial instruments

At July 31, 2020, 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, 2020 and 2019:

<b>July 31, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 2,093,645	-	-	\$ 2,093,645
Accounts receivables	206,878	-	-	206,878
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	187,814	-	-	187,814
Lease liability	17,396	-	-	17,396
<b>July 31, 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 2,194,824	-	-	\$ 2,194,824
Accounts receivables	291,554	-	-	291,554
<b>Financial liabilities</b>				
Accounts payable and accrued liabilities	226,595	-	-	226,595
Customer deposits	8,198	-	-	8,198

## 16. Commitment

The Company is committed under an agreement to lease office facilities to September 30, 2020. The Company is committed to making minimum monthly payments of \$970 for these office facilities. The agreement was extended subsequent to the year ended July 31, 2020, and will now expire on September 30, 2022 with minimum monthly payments of \$970.

The Company also has a commitment under a vehicle lease agreement. The remaining lease period is 20 months and monthly payment commitment is \$887.

# JEMTEC INC.

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## 17. Segmented Information

The Company currently has one reportable operating segment, being the provision of services and technologies for offender monitoring within Canada to Canadian federal and provincial correctional departments, and private customers. All of the Company's long-term assets are located in Canada.