

JEMTEC INC.

Management Discussion and Analysis

July 31, 2023

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, 2023. 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, 2023.

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 28, 2023

This Management Discussion and Analysis, dated November 28, 2023, accompanies the audited financial statements of the Company for the fiscal year ended July 31, 2023.

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 7 years.

On March 5, 2015, Public Works and Government Services Canada (“PWGSC”) confirmed that Jemtec’s solution had been evaluated as the winning proposal to provide Correctional Services of Canada (“CSC”) Electronic Monitoring services throughout Canada effective immediately for its Electronic Monitoring Research Pilot. The contract is for an initial three-year period with two additional one-year options selectable by CSC. In March 2020, PWGSC confirmed that it was going to exercise the additional (second) one-year option. In March 2020, following a competitive RFP process, PWGSC issued a new contract to Jemtec for one year with up to four additional one-year extensions. In March 2021, the current agreement was extended for one year from April 1, 2021 to March 31, 2022. In March 2022, the current agreement was extended for another one year from April 1, 2022 to March 31, 2023. In March 2023, the current agreement was extended to another one year.

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 had a three-year term with an option for two additional two years extensions for a possible seven-year term. In March 2020, NS Correctional Services sent the Company an extension agreement for signature outlining its plan to exercise its first two-year additional extension. In January 2021, NS Correctional Services sent the Company another extension agreement for signature outlining its plan to exercise its second two-year additional extension until February 28, 2023. An additional extension until June 30, 2023 has been accepted by the Company and further Correctional Services has informed the Company that it will use technology from a different company starting July 1, 2023.

In February 2017, the Company extended its agreement with the Province of Saskatchewan (“Saskatchewan”) for a three-year term to March 31, 2020 with two optional extensions of up to one year each. In March 2020, the current agreement was extended for one year from April 1, 2020 to March 31, 2021. In March 2021, the current agreement was extended for another one year from April 1, 2021 to March 31, 2022. In March 2022, the current agreement was extended for a period of six months from April 1, 2022 to September 30, 2022. In October 2022, the current agreement was extended for a period of six months to March 31, 2023. In March 2023, the Company signed a 5 year lease agreement with Saskatchewan to provide offender management and monitoring technology.

For the periods from March 2017 to June 2022, Jemtec entered into an agreement with Ontario Ministry of the Solicitor General (“Ontario”) to provide electronic monitoring equipment, technology, central monitoring software and technical services in support of its electronic Supervision Program. On March 10, 2022, Ontario advised Jemtec that the Company was not the successful candidate to supply the GPS technology for the new program and the loss of this contract has had a significant effect on the Company’s sales and operations.

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,		
	2023	2022	2021
Revenue	\$ 1,481,123	\$ 2,810,002	\$ 2,566,970
Expenses	1,694,505	2,029,045	1,890,360
Income tax recovery (expense)	12,000	(230,000)	(115,000)
Net (loss) income	(201,382)	550,957	561,610
(Loss) earnings per share			
Basic	\$ (0.072)	\$ 0.197	\$ 0.203
Diluted	\$ (0.071)	\$ 0.193	\$ 0.197

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 2023	April 30 2023	January 31 2023	October 31 2022	July 31 2022	April 30 2022	January 31 2022	October 31 2021
Revenue	\$ 381,351	\$ 356,599	\$ 363,981	\$ 379,192	\$ 575,576	\$ 732,919	\$ 733,384	\$ 768,123
Expenses	415,961	428,670	453,055	396,819	473,318	558,572	521,923	475,232
Income tax	17,655	(3,000)	(3,655)	1,000	(37,000)	(56,000)	(58,000)	(79,000)
Net (loss) income	\$(16,955)	\$(75,071)	\$(92,729)	\$(16,627)	\$ 65,258	\$ 118,347	\$ 153,461	\$ 213,891
(Loss) earnings per share								
Basic	\$ (0.006)	\$ (0.027)	\$ (0.033)	\$ (0.006)	\$ 0.023	\$ 0.042	\$ 0.055	\$ 0.077
Diluted	\$ (0.006)	\$ (0.027)	\$ (0.033)	\$ (0.006)	\$ 0.022	\$ 0.042	\$ 0.054	\$ 0.075

Revenues

Revenues have decreased by 47% during the year ended July 31, 2023 compared to the year ended July 31, 2022 primarily due to the loss of Ontario contract. The Company earned revenues on its agreements with the Provinces of Saskatchewan, Nova Scotia as well as the CSC. The Company also earned revenues from private bail clients by presenting the release plans for court cases.

	Years Ended July 31,	
	2023	2022
Revenue		
Monitoring services	\$ 1,250,584	\$ 2,427,194
Equipment rental, servicing and repairs	179,648	348,671
Other	14,734	28,597
Total trade revenue	\$ 1,444,996	\$ 2,804,462

Monitoring revenue is recognized as the services are provided to the customer pursuant to the underlying terms, conditions and rates included in the contracts. In cases where the performance obligations are not satisfied at the reporting period date, the related revenue is deferred to future periods and recognized as the services are provided.

Equipment rental revenue is recognized over the term of the agreement based on daily or monthly rates. Equipment servicing and repair revenue is recognized at the time the service is provided. Revenues from the sale of parts and supplies required to service, repair and maintain equipment are recognized when control of the goods has been transferred, which occurs when the goods are delivered to the customer.

The usual term of customer contracts and agreements is one to seven 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 other circumstances, may be cancelled upon specific notice provided to the Company. In situations where contracts and 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.

The Company also earns revenues from private bail clients by presenting the release plans for court cases without which the clients would have remained in custody. The Bail/Immigration revenues commonly experience variations in including but not limited to: seasonal fluctuations, court delays, and immigration policy changes.

Expenses

During the year ended July 31, 2023, expenses decreased by 16% compared to the year ended July 31, 2022 primarily due to the fluctuations in consulting fees, equipment rent and installation, monitoring and activation fees, and shipping.

Category	Changes – fiscal year ended July 31, 2023 compared to fiscal year ended July 31, 2022
Consulting fees	Decrease: Loss of the Ontario contract.
Equipment rent and installation	Increase: Greater use of services by Saskatchewan.
Monitoring and activation fees	Decrease: Loss of the Ontario contract.
Shipping	Decrease: Less courier services for customers.

Income Tax

For the fiscal year ended July 31, 2023, the Company recognized a current income tax (recovery) expense of (\$52,000) (2022 - \$219,000) and a deferred income tax expense of \$40,000 (2022 – \$11,000). The current income tax (recovery) expense was related to income tax in Canada. The deferred income tax was related to unrecognized deferred tax assets/liabilities.

Net Income

For the year ended July 31, 2023, the Company recorded a net loss of \$201,382, compared to a net income of \$550,957 during the year ended July 31, 2022. This decrease in net income is primarily due to loss of the Ontario contract.

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

As at July 31, 2023, the Company had cash and cash equivalents of \$2,131,728 and working capital of \$2,236,853. 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, 2023	As at July 31, 2022
Current assets	\$ 2,462,287	\$ 2,536,183
Equipment	45,431	31,923
Deferred income tax assets	-	40,000
Total assets	<u>2,507,718</u>	<u>2,608,106</u>
Current liabilities	225,434	173,506
Non-current liabilities	3,837	-
Total liabilities	<u>229,271</u>	<u>173,506</u>
Shareholders' equity	<u>\$ 2,278,447</u>	<u>\$ 2,434,600</u>
Working capital	<u>\$ 2,236,853</u>	<u>\$ 2,362,677</u>

Working capital components include cash and cash equivalents in current or interest-bearing accounts, accounts receivable, prepaid expenses and deposits, income taxes recoverable, accounts payable and accrued liabilities, deferred revenue, customer deposits and current portion of lease liability.

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 47% decrease in revenues and a 16% decrease in expenses resulted in a net loss of \$201,382 for the year ended July 31, 2023 after an income tax recovery of \$12,000, compared to net income of \$550,957 for the year ended July 31, 2022 with a tax provision of \$230,000.

During its fiscal year ending July 31, 2024, the Company anticipates being in net loss position from normal operations which excludes 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.

The loss of the Ontario contract has negatively impacted the Company's revenues by 47%. The compensatory effect on net loss for the fiscal year of July 31, 2023 is significant. However, the Company's management is not aware of any other trends or other expected fluctuations in its liquidity that would create any other deficiencies. The Company's management believes that its cash balances will be sufficient to meet the Company's short-term goals and will continue to review long-term requirements as necessary for 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 \$20,000 (2022 - \$20,000) is made to three directors, \$25,000 (2022 - \$25,000) is made to the Chairman and a fee of \$1,000 (2022 - \$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 (2022 - \$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, 2023 and 2022.

Nature of expenditure	July 31, 2023	July 31, 2022
Accounting and administration fees	\$ 45,900	\$ 43,400
Directors' fees	118,616	118,090
Salary and benefits	288,210	294,849
Share-based payments	45,229	64,034
Key management compensation	\$ 497,955	\$ 520,373

During the year ended July 31, 2023, \$118,616 (2022 – \$118,090) was accrued or paid to the directors of the Company as directors' fees. As at July 31, 2023, \$7,220 (2022 - \$nil) is owing to directors and is included in accounts payable and accrued liabilities.

During the year ended July 31, 2023, accounting fees of \$45,900 (2022 – \$43,400) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. As at July 31, 2023, \$3,885 (2022 – \$3,700) 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,	
	2023	2022
Revenue		
Trade	\$ 368,448	\$ 572,894
Interest income	12,903	2,682
	381,351	575,576
Expenses		
Accounting and administration fees	11,100	11,100
Consulting fees	21,450	31,215
Depreciation	14,881	7,954
Directors' fees	27,721	29,362
Equipment rent and installation	45,970	34,831
Foreign exchange gain/loss	932	2,167
Lease interest	533	69
Monitoring and activation fees	137,184	137,796
Office	18,771	15,757
Professional fees	11,250	6,440
Repairs and maintenance	19,002	17,273
Salaries and benefits	69,521	74,474
Share-based payments	1,344	32,017
Shareholder communications	3,006	6,641
Shipping	23,650	56,688
Travel	9,646	9,534
	415,961	473,318
(Loss) income before income taxes	(34,610)	102,258
Income tax (recovery) expense	(17,655)	37,000
Net (loss) income and comprehensive (loss) income for the period	\$ (16,955)	\$ 65,258
(Loss) earnings per share		
Basic	\$ (0.01)	\$ 0.02
Diluted	\$ (0.01)	\$ 0.02
Weighted-average number of shares outstanding		
Basic	2,794,679	2,794,679
Diluted	2,818,921	2,854,818

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 2 – Basis of Presentation* and *Note 3 - Significant Accounting Policies* in the notes to the Company's audited financial statements for the years ended July 31, 2023 and 2022 for more information concerning the accounting principles used in the preparation of the Company's audited financial statements.

Item 13. Changes in Accounting Policies and 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, 2022. The adoption of these 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.

Amendments to IAS 1 – Classification of Liabilities as Current or Non-current

The amendments to IAS 1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 8 – Definition of Accounting Estimates

These amendments clarify how companies distinguish changes in accounting policies from changes in accounting estimates, with a primary focus on the definition of and clarifications on accounting estimates. The distinction between the two is important because changes in accounting policies are applied retrospectively, whereas changes in accounting estimates are applied prospectively. Further, the amendments clarify that accounting estimates are monetary amounts in the financial statements subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that a company develops an accounting estimate to achieve the objective set out by an accounting policy.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IAS 1 and IFRS Practice Statement 2 – Disclosure of Accounting Policies

These amendments continue the IASB's clarifications on applying the concept of materiality. These amendments help companies provide useful accounting policy disclosures, and they include: requiring companies to disclose their material accounting policies instead of their significant accounting policies; clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and do not need to be disclosed; and clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material. The IASB also amended IFRS Practice Statement 2 to include guidance and examples on applying materiality to accounting policy disclosures.

These amendments are effective for reporting periods beginning on or after January 1, 2023.

Amendments to IFRS 16 – Lease Liability in a Sale and Leaseback

These amendments require a seller-lessee to account for variable lease payments that arise in a sale-and-leaseback transaction as follows: (i) on initial recognition, include variable lease payments when measuring a lease liability arising from a sale-and-leaseback transaction; (ii) after initial recognition, apply the general requirements for subsequent accounting of the lease liability such that no gain or loss relating to the retained right of use is recognized. Seller-lessees are required to reassess and potentially restate sale-and-leaseback transactions entered into since the implementation of IFRS 16 in 2019.

These amendments are effective for reporting periods beginning on or after January 1, 2024.

Amendment to IAS 1 – Non-current Liabilities with Covenants

The amendment clarifies how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.

This amendment is effective for reporting periods beginning on or after January 1, 2024.

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, and accounts payable and accrued liabilities (excluding government service tax liabilities).

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 at July 31, 2023, the Company had \$2,131,728 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 cash and cash equivalents and accounts receivable. All cash balances are held in a Canadian Schedule I bank. As at July 31, 2023, there is a concentration of credit risk in accounts receivable whereby three customers account for 95% of the outstanding balance; however, all amounts have been collected subsequent to the reporting period date.

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, 2023, the Company had cash and cash equivalents of \$2,131,728 to settle \$225,434 in current liabilities, which fall due for payment within twelve months of the reporting period date.

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, 2023, all the Company's cash and cash equivalent balances were held in Canada in Canadian dollars. 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 not significant.

Item 15. Other Information**Share Capital**

The Company has 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, 2023 and 2022
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend – None issued as at July 31, 2023 and 2022

As at July 31, 2023, July 31, 2022 and November 28, 2023, 2,794,679 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 279,467. Options granted under the plan vest as determined by the Board when the options are granted. 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 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 years ended July 31, 2018, 2019 and 2020, share-based payments were fully recognized in the Statement of Operations and Comprehensive Income (Loss). As at July 31, 2021, all of the options were vested. On December 31, 2020, 20,000 shares of these stock options granted were exercised at a price of \$0.75 per share for consideration totaling \$15,000 and 5,000 options were forfeited. As at July 31, 2023, 100,000 shares of the options were outstanding.

On February 1, 2022, the Company granted 139,000 stock options to officers and directors, at a price of \$2.09 per share, expiring 4 years after the date of grant and vest at a rate of 20% every six months from the date of grant to August 1, 2024. The fair value of the options granted was estimated on the date of grant at \$141,000 using the Black-Scholes option-pricing model with the following assumptions: i) risk-free interest rates ranging from 1.24% to 1.57%; ii) expected life ranging from 1.5 to 3.5 years; iii) expected annualized volatility ranging from 41.43% to 61.33%; and iv) no dividend yield. As at July 31, 2023, 139,000 shares of the options were outstanding.

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, 2023 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, 2023. 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, 2023 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.sedarplus.ca and on the Company's website at www.JEMTEC.ca.