

**JEMTEC Inc.**

**Financial Statements**  
**Years Ended July 31, 2023 and 2022**  
*(Expressed in Canadian dollars)*

## Independent Auditor's Report

To the Shareholders of Jemtec Inc.

### Opinion

We have audited the financial statements of Jemtec Inc. (the "Company"), which comprise the statement of financial position as at July 31, 2023 and the statements of operations and comprehensive income (loss), changes in shareholders' equity and cash flows for the year then ended, and 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, 2023, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's 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 is sufficient and appropriate to provide a basis for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. We have determined that there are no key audit matters to communicate in our report.

### Other matter

The financial statements of Jemtec Inc. for the year ended July 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on November 22, 2022.

### Other Information

Management is responsible for the other information. The other information comprises:

- 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 audit, or otherwise appears to be materially misstated.

We obtained the other information prior to the date of this auditor's 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 auditor's 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 International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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.

### **Auditor's 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 auditor's 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 auditor's 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 auditor's 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 auditor's report is Todd Freer.

*Crowe MacKay LLP*

**Chartered Professional Accountants  
Calgary, Canada  
November 28, 2023**

# JEMTEC INC.

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

For the years ended July 31, 2023 and 2022

	Notes	2023	2022
<b>Revenues</b>			
Trade	12	\$ 1,444,966	\$ 2,804,462
Interest		36,157	5,540
		<b>1,481,123</b>	<b>2,810,002</b>
<b>Expenses</b>			
Accounting and administrative fees	11	45,900	43,400
Consulting fees		95,840	124,455
Depreciation	7	30,599	33,886
Directors' fees	11	118,616	118,090
Equipment rent and servicing		157,918	109,150
Foreign exchange loss		13,220	14,246
Lease interest	6	2,031	643
Monitoring and activation fees		529,138	824,264
Office		73,732	72,381
Professional fees		38,187	43,410
Repairs and maintenance		88,847	98,505
Salaries and benefits	11	288,210	294,849
Share-based payments	11	45,229	64,034
Shareholder communications		18,972	21,114
Shipping		108,917	132,974
Travel		39,149	33,644
		<b>1,694,505</b>	<b>2,029,045</b>
Income (loss) before income taxes		<b>(213,382)</b>	780,957
Current income tax (expense) recovery	13	52,000	(219,000)
Deferred income tax expense	13	(40,000)	(11,000)
<b>Net income (loss) and comprehensive income (loss)</b>		<b>\$ (201,382)</b>	<b>\$ 550,957</b>
<b>Earnings (loss) per share</b>			
Basic		\$ (0.072)	\$ 0.197
Diluted		\$ (0.071)	\$ 0.193
<b>Weighted-average number of shares outstanding</b>			
Basic	10	2,794,679	2,794,679
Diluted	10	2,836,085	2,855,718

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, 2023 and 2022

	Notes	2023	2022
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 2,131,728	\$ 2,167,495
Accounts receivable		227,201	318,206
Prepaid expenses and deposits		29,233	28,380
Income taxes recoverable		74,125	22,102
<b>Total current assets</b>		<b>2,462,287</b>	<b>2,536,183</b>
Property and equipment	7	45,431	31,923
Deferred income tax assets	13	-	40,000
<b>Total assets</b>		<b>\$ 2,507,718</b>	<b>\$ 2,608,106</b>

## Liabilities and Shareholders' Equity

<b>Current liabilities</b>			
Accounts payable and accrued liabilities	9, 11	\$ 186,133	\$ 164,392
Deferred revenue		5,830	3,910
Customer deposit		11,396	1,500
Current portion of lease liabilities	6	22,075	3,704
<b>Total current liabilities</b>		<b>225,434</b>	<b>173,506</b>
Lease liabilities	6	3,837	-
<b>Total liabilities</b>		<b>229,271</b>	<b>173,506</b>
<b>Shareholders' equity</b>			
Share capital	10	1,410,764	1,410,764
Share-based payments reserves	10	570,723	525,494
Retained earnings		296,960	498,342
<b>Total shareholders' equity</b>		<b>2,278,447</b>	<b>2,434,600</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 2,507,718</b>	<b>\$ 2,608,106</b>

Commitment 17

Approved on behalf of the Board and authorized for issue on November XX, 2023:

\_\_\_\_\_  
"Eric Caton" Director

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"Leslie Markow" Director

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

# JEMTEC INC.

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

For the years ended July 31, 2023 and 2022

	<b>Number of Common Shares</b>	<b>Share Capital</b>	<b>Share-Based Payments Reserves</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Shareholders' Equity</b>
Balance, July 31, 2021	2,794,679	\$ 1,410,764	\$ 461,460	\$ (52,615)	\$ 1,819,609
Share-based payments	-	-	64,034	-	64,034
Net income	-	-	-	550,957	550,957
Balance, July 31, 2022	2,794,679	1,410,764	525,494	498,342	2,434,600
Share-based payments	-	-	45,229	-	45,229
Net loss	-	-	-	(201,382)	(201,382)
<b>Balance, July 31, 2023</b>	<b>2,794,679</b>	<b>\$ 1,410,764</b>	<b>\$ 570,723</b>	<b>\$ 296,960</b>	<b>\$ 2,278,447</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, 2023 and 2022

	2023	2022
<b>Cash provided by (used for):</b>		
<b>Operating activities</b>		
Net income (loss) for the year	\$ (201,382)	\$ 550,957
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	30,599	33,886
Share-based payments	45,229	64,034
Interest on lease liabilities	2,031	643
Deferred income tax expense	40,000	11,000
Changes in non-cash operating working capital		
Accounts receivable	91,005	45,948
Prepaid expenses and deposits	(853)	(4,257)
Accounts payable and accrued liabilities	21,741	(110,252)
Customer deposit	9,896	1,500
Deferred revenue	1,920	(910)
Income taxes recoverable	(52,023)	(26,001)
<b>Net cash provided by (used in) operating activities</b>	<b>(11,837)</b>	<b>566,548</b>
<b>Investing activity</b>		
Purchase of equipment	(750)	(32,091)
<b>Net cash used in investing activity</b>	<b>(750)</b>	<b>(32,091)</b>
<b>Financing activities</b>		
Lease payments	(23,180)	(29,568)
<b>Net cash used in financing activities</b>	<b>(23,180)</b>	<b>(29,568)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(35,767)</b>	<b>504,889</b>
Cash and cash equivalents, beginning of year	2,167,495	1,662,606
<b>Cash and cash equivalents, end of year</b>	<b>\$ 2,131,728</b>	<b>\$ 2,167,495</b>
<b>Cash and cash equivalents</b>		
Cash	\$ 361,520	\$ 932,702
Short-term deposits	1,770,208	1,234,793
	<b>\$ 2,131,728</b>	<b>\$ 2,167,495</b>
<b>Supplementary Information</b>		
Interest received	\$ 36,157	\$ 5,540
Interest paid	\$ 317	\$ 10
Income taxes paid	\$ -	\$ 241,026
Initial recognition of right-of-use asset and lease liability	\$ 43,357	\$ -

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

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
(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”).

### 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) Other comprehensive income (loss)

Other comprehensive income (loss) 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 (loss) for the years ended July 31, 2023 and 2022.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
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## 2. Basis of presentation (Continued)

### d) Estimates and judgments

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:

#### 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.

#### Discount rate used for right-of-use asset/lease liability

The Company uses estimation in determining the incremental borrowing rate used to measure the lease liability, right-of-use asset, specific to the asset, underlying currency and geographic location. Where the rate implicit in the lease is not readily determinable, the discount rate of the lease obligations is estimated using a discount rate similar to the Company's specific borrowing rate. This rate represents the rate that the Company would incur to obtain the funds necessary to purchase the asset of a similar value, with similar payment terms and security in a similar environment.

#### Recoverability of accounts receivable

Accounts receivable are recorded at the estimated recoverable amount, which involves the estimate of uncollectable accounts.

## 3. Significant accounting policies

These financial statements were authorized for issue by the Board of Directors on November 27, 2023.

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 are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
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## 3. Significant accounting policies (Continued)

### 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:

Vehicle	30% declining balance
Computer	55% declining balance
Furniture	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 recognizes revenues from customers applying the five-step model framework in IFRS 15, as follows:

- Identify the contract(s) with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize the revenue when the entity has satisfied the performance obligation(s).

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.

Interest income is recorded when earned.

# JEMTEC INC.

Notes to the Financial Statements  
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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 and comprehensive income (loss). 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 and comprehensive income (loss) in the period in which they arise.

**Financial assets at FVTOCI:** Financial assets carried at FVTOCI are initially recorded at fair value plus transaction costs 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.

#### 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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
(Expressed in Canadian Dollars)

## 3. Significant accounting policies (Continued)

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

#### 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, 2023 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

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

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

### g) Earnings per share

Basic earnings 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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
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## 3. Significant accounting policies (Continued)

### h) Income taxes

#### i) Current income tax

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

#### ii) Deferred income tax

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

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

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

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

### i) Leases

#### Lessee

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset (the "ROU asset"), the Company assesses whether the contract involves the use of an identified asset, either explicitly or implicitly, including consideration of supplier substitution rights, the Company has the right to obtain substantially all the economic benefits from the use of the asset throughout the period of use; and whether the Company has the right to direct the use of the asset.

The Company applies the exemption not to recognize right-of-use assets and lease liabilities for leases relating to low-value assets and leases whose term ends within 12 months of the date of initial application. The ROU asset is initially measured based on the initial amount of the lease liability plus any initial direct costs incurred less any lease incentives received. The ROU asset is depreciated to the end-of-the-useful-life or the lease term, whichever comes earlier, using the straight-line method. The lease

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
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## 3. Significant accounting policies (Continued)

### i) Leases (Continued)

#### Lessee

term includes periods covered by an option to extend if the Company is reasonably certain to exercise the option. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or a rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

#### Lessor

Leases are classified according to the substance of the transaction. Leases that transfer substantially all the risks and rewards incidental to ownership of the underlying assets to the lessees are accounted for as finance leases. Upon initial recognition, the leased asset is recorded as an amount receivable and measured as the present value of the minimum lease payments. All other leases are accounted for as operating leases. All leases at July 31, 2023 and 2022 are classified as operating leases.

### j) Deferred revenue

Deferred revenue consists of payments received from customers for which services have not yet been provided.

### k) Current and future accounting changes

Certain pronouncements and amendments to existing standards were issued by the IASB 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.

# JEMTEC INC.

Notes to the Financial Statements  
Years Ended July 31, 2023 and 2022  
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## 3. Significant accounting policies (Continued)

### k) Future accounting changes (Continued)

#### 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.

# JEMTEC INC.

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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 and concentration

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. As at July 31, 2023, the Company's allowance for uncollectible accounts was \$nil (2022 - \$nil). 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.

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 and cash equivalents. At July 31, 2023, the Company had cash balances on deposit that exceeded federally insured limits by \$1,931,728 (2022 - \$1,967,495). All of these funds are on deposit with Schedule I banks in Canada.

### b) Liquidity risk

All of the Company's financial liabilities are classified as current.

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, 2023, the Company had cash and cash equivalents of \$2,131,728 (2022 - \$2,167,495) to settle \$225,434 (2022 - \$173,506) in current liabilities which fall due for payment within 12 months of the year end date.

### 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 not significant.

### e) Fair value

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

# JEMTEC INC.

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

### f) Sensitivity analysis

Based on management's experience of the financial markets, the Company does not expect any movements in the underlying market risk variables to have a significant impact on the Company's values of assets and liabilities or on the Company's financial performance 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 Statement 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, 2023.

## 6. Lease liabilities

The Company has a lease agreement for office space. The continuity of the lease liabilities for the years ended July 31, 2023 and 2022 is as follows:

	July 31, 2023	July 31, 2022
Balance, beginning of year	\$ 3,704	\$ 32,629
Additions	43,357	-
Lease payments	(23,180)	(29,568)
Lease interest	2,031	643
<b>Balance, end of year</b>	<b>\$ 25,912</b>	<b>\$ 3,704</b>
Current portion	\$ 22,075	\$ 3,704
Non-current portion	3,837	-
	<b>\$ 25,912</b>	<b>\$ 3,704</b>

During the year, the Company incurred short-term lease (recovery) expense for office space of \$106 (2022 – (\$804)).

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## 7. Property and Equipment

	Vehicle	Right-of-use Asset	Furniture	Computer	Monitoring Equipment	Total
Cost, July 31, 2022	\$ 32,091	\$ 70,631	\$ 50,222	\$ 996	\$ 594,770	\$ 748,710
Additions	-	43,357	-	750	-	44,107
De-recognition	-	(70,631)	-	-	(594,770)	(665,401)
<b>Cost, July 31, 2023</b>	<b>32,091</b>	<b>43,357</b>	<b>50,222</b>	<b>1,746</b>	<b>-</b>	<b>127,416</b>
Accumulated depreciation, July 31, 2022	4,814	67,038	49,555	610	594,770	716,787
Depreciation for the year	8,183	21,658	133	625	-	30,599
De-recognition	-	(70,631)	-	-	(594,770)	(665,401)
<b>Accumulated depreciation, July 31, 2023</b>	<b>12,997</b>	<b>18,065</b>	<b>49,688</b>	<b>1,235</b>	<b>-</b>	<b>81,985</b>
<b>Net book value, July 31, 2023</b>	<b>\$ 19,094</b>	<b>\$ 25,292</b>	<b>\$ 534</b>	<b>\$ 511</b>	<b>\$ -</b>	<b>\$ 45,431</b>

The Company de-recognized property and equipment during the year for \$nil proceeds that was fully-depreciated and no longer in productive use. The de-recognition of these assets resulted in neither a gain nor a loss on disposal.

	Vehicle	Right-of-use Asset	Furniture	Computer	Monitoring Equipment	Total
Cost, July 31, 2021	\$ -	\$ 70,631	\$ 50,222	\$ 996	\$ 594,770	\$ 716,619
Additions	32,091	-	-	-	-	32,091
<b>Cost, July 31, 2022</b>	<b>32,091</b>	<b>70,631</b>	<b>50,222</b>	<b>996</b>	<b>594,770</b>	<b>748,710</b>
Accumulated depreciation, July 31, 2021	-	38,606	49,388	137	594,770	682,901
Depreciation for the year	4,814	28,432	167	473	-	33,886
<b>Accumulated depreciation, July 31, 2022</b>	<b>4,814</b>	<b>67,038</b>	<b>49,555</b>	<b>610</b>	<b>594,770</b>	<b>716,787</b>
<b>Net book value, July 31, 2022</b>	<b>\$ 27,277</b>	<b>\$ 3,593</b>	<b>\$ 667</b>	<b>\$ 386</b>	<b>\$ -</b>	<b>\$ 31,923</b>

# JEMTEC INC.

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## 8. Bank credit facility

The Company has a credit facility with an available borrowing limit of \$75,000. The loan is due on demand, bears interest at the bank's prime rate plus 1.3% per annum, and is secured by a general security agreement over all of the assets of the Company. As at and during the years ended July 31, 2023 and 2022, the loan has not been utilized.

## 9. Accounts payable and accrued liabilities

	July 31, 2023	July 31, 2022
Trade payable and accrued liabilities	\$ 150,502	\$ 102,241
Government service tax and remittance liabilities	35,631	62,151
	<b>\$ 186,133</b>	<b>\$ 164,392</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, 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, 2,794,679 common shares (2022 - 2,794,679) 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 279,467. Options granted under the plan vest as determined by the Board when the Option is 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.

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## 10. Share capital and reserves (Continued)

### b) Stock options (Continued)

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.

In estimating the fair value of stock options issued using the Black-Scholes option pricing model, the Company is required to make assumptions. The expected volatility assumption is based on the historical volatility of the Company's common share price on the TSX-V. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model.

A summary of changes in stock options is presented below:

	Number of Options	Weighted Averaged Exercise Price
Balance, July 31, 2021	100,000	\$0.750
Granted	139,000	\$2.090
<b>Balance, July 31, 2023 and 2022</b>	<b>239,000</b>	<b>\$1.529</b>

Options outstanding at July 31, 2023 are as follows:

Date of Grant	Number of Options Granted	Expiry	Exercise Price	Number Exercisable as at July 31, 2023	Number Outstanding as at July 31, 2023	Weighted Average Remaining Contractual Life (years)
May 14, 2018	125,000	May 13, 2028	\$0.750	100,000	100,000	4.79 years
February 1, 2022	139,000	January 31, 2026	\$2.090	55,600	139,000	2.59 years
				155,600	239,000	3.51 years

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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, 2023	July 31, 2022
Net income (loss) for the year	\$ (201,382)	\$ 550,957
Basic weighted average number of shares outstanding	2,794,679	2,794,679
Effect on dilutive securities from stock options	41,406	61,039
<u>Diluted weighted average number of shares outstanding</u>	<u>\$ 2,836,085</u>	<u>\$ 2,855,718</u>
Earnings (loss) per share, basic	\$ (0.072)	\$ 0.197
<u>Earnings (loss) per share, diluted</u>	<u>\$ (0.071)</u>	<u>\$ 0.193</u>

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## 11. Related party transactions and key management compensation

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

<b>Position</b>	<b>Nature of Transaction</b>
President, CEO and Director	Management services
Director	Director and Chairman of the Board
Director	Director and Chair of Audit Committee
Director	Director and member 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 \$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.

<b>Nature of expenditures</b>	<b>July 31, 2023</b>	<b>July 31, 2022</b>
Accounting and administrative fees	\$ 45,900	\$ 43,400
Directors' fees	118,616	118,090
Salaries and benefits	288,210	294,849
Share-based payments *	45,229	64,034
<b>Key management compensation</b>	<b>\$ 497,955</b>	<b>\$ 520,373</b>

\* 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 and accounted for in accordance with IFRS 2, Share-based payments. Refer to note 10(b) for details of this plan.

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 approved by the related parties. All amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

# JEMTEC INC.

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## 12. Revenues

The Company's composition of trade revenues consist of the following disaggregated amounts:

	July 31, 2023	July 31, 2022
Monitoring services	\$ 1,250,584	\$ 2,427,194
Equipment rental, servicing and repairs	179,648	348,671
Other	14,734	28,597
	<b>\$ 1,444,966</b>	<b>\$2,804,462</b>

## 13. Income taxes

A reconciliation of the combined federal and provincial income taxes at the statutory rate of approximately 27% (2022 – 27%) and the Company's effective income tax expense is as follows:

	July 31, 2023	July 31, 2022
Income (loss) before taxes	\$ (213,382)	\$ 780,957
Computed expected tax expense (recovery)	(58,000)	211,000
Effect of change in tax rate and other	14,000	19,000
Effect of non-recognition of deferred tax assets	32,000	-
Income tax expense (recovery)	<b>\$ (12,000)</b>	<b>\$ 230,000</b>

### Deferred tax assets

Deferred tax assets consist of the following:

Property and equipment	\$ 25,000	\$ 39,000
Lease liability	7,000	1,000
Non-recognition of deferred tax assets	(32,000)	-
Net deferred tax assets	<b>\$ -</b>	<b>\$ 40,000</b>

The following tax pools are deductible against future taxable income and have no expiry dates:

Property and equipment	<b>\$ 136,500</b>	<b>\$ 170,000</b>
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# JEMTEC INC.

Notes to the Financial Statements  
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## 14. Fair value of financial instruments

At July 31, 2023, the Company held financial instruments carried at fair value on the Statement 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 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, 2023 and 2022:

<b>July 31, 2023</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 2,131,728	-	-	\$ 2,131,728
<b>July 31, 2022</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets</b>				
Cash and cash equivalents	\$ 2,167,495	-	-	\$ 2,167,495

## 15. Segmented information

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

## 16. Economic dependence

The Company earned the majority of its revenues from three (2022 – three) customers that individually exceeded 10% of trade revenues and, in aggregate, amounted to 93% (2022 – 89%) of trade revenues.

The Company is economically dependent on a limited number of key suppliers for the continued provision of monitoring services, monitoring equipment, replacement parts, and maintenance services. If one or more of these suppliers discontinued providing goods and services, the Company would be required to find new providers on similar economic terms in order to continue providing services and goods to its customers.

## 17. Commitment

The Company is committed to an annual lease payment of \$75,000 pursuant to a software license.

## 18. Comparative figures

Certain comparative figures have been reclassified to comfort with current year presentation. Such reclassification is for presentation purpose only and has no effect on the prior year's income and retained earnings.