

JEMTEC INC.

Management Discussion and Analysis

October 31, 2016

This management discussion and analysis ("MD&A") of JEMTEC Inc. ("Jemtec" or the "Company") provides analysis of Jemtec's financial results for the fiscal quarter ended October 31, 2016. The following information should be read in conjunction with the accompanying condensed interim financial statements and the notes thereto as at October 31, 2016. This MD&A is meant to be an update of the MD&A for the fiscal year ended July 31, 2016, dated November 24, 2016, and does not necessarily repeat information that has not significantly changed since the audited annual financial statements were issued.

The item numbering in this discussion refers to the numbering and headings as per the Form 51-102F1. Inapplicable items have been omitted.

This discussion includes statements about the Company's expectations for the future. The Company's management team believes that these expectations are reasonable; however, actual outcomes may differ materially from these expectations due to changes in operating performance, unexpected competition and other technical, market and economic factors.

Item 1. Date: December 20, 2016

This Management Discussion and Analysis, dated December 20, 2016, accompanies the condensed interim financial statements of the Company for the quarter ended October 31, 2016.

Item 2. Overall Performance and Description of Business

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

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

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

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

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

Over the past year, most of the Company's agreements have been renewed and/or extended. In October 2016, the Company extended its agreement with the Province of Saskatchewan to January 31, 2017. Corrections Manitoba continues to use the Company's GPS technology and has proposed a one year extension which is being reviewed by the newly elected government.

On March 5, 2015, Public Works and Government Services Canada had confirmed that Jemtec's solution has been evaluated as the winning proposal to provide Correctional Services of Canada ("CSC") Electronic Monitoring services throughout Canada effective immediately for its propose Electronic

Monitoring Research Pilot. The contract is for an initial three year period with two additional one-year options selectable by CSC.

On February 12, 2016, Nova Scotia Department of Justice, Correctional Services ("Correctional Services") confirmed that Jemtec has been selected to provide offender monitoring services. The initial contract has a three year term with an option for two additional two years extensions for a possible seven year term.

The Company anticipates recording a net loss of approximately \$50,000 during its fiscal year ending July 31, 2017, excluding expenses that may be incurred in connection to a potential acquisition or business combination and any other expenses incurred to expand the Company's current customer base. The Company is actively pursuing other business opportunities such as acquisitions and partnerships.

Item 3. Selected Annual Information

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

	For the three months ended October 31,		
	2016	2015	2014
Revenue	\$ 286,144	\$ 194,677	\$ 165,191
Expenses	275,513	240,111	231,001
Net income (loss)	\$ 10,631	\$ (45,434)	\$ (65,810)
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.02)	\$ (0.03)

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

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

	Quarters Ended							
	October 31 2016	July 31 2016	April 30 2016	January 31 2016	October 31 2015	July 31 2015	April 30 2015	January 31 2015
Revenue	\$ 286,144	\$ 253,991	\$ 229,867	\$ 231,272	\$ 194,677	\$ 207,800	\$ 179,093	\$ 170,880
Expenses	275,513	275,387	263,921	279,758	240,111	264,062	231,294	240,954
Net income (loss)	\$ 10,631	\$ (21,396)	\$ (34,054)	\$ (48,486)	\$ (45,434)	\$ (56,262)	\$ (52,201)	\$ (70,074)
Basic and diluted income (loss) per share	\$ 0.00	\$ (0.01)	\$ (0.01)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.02)	\$ (0.03)

Revenues

Revenues have increased by 47% during the quarter ended October 31, 2016 compared to the quarter ended October 31, 2015 due to an increase from Saskatchewan, Bail and CSC. During the quarter, the Company earned revenues on its agreements with the Provinces of Saskatchewan, Nova Scotia, and Manitoba as well as the CSC. The Company also earned revenues from private bail clients.

	Quarters Ended October 31,		
	2016	2015	2014
Revenue			
Leasing, monitoring and activation	\$ 232,756	\$ 159,466	\$ 134,179
Bail	51,196	32,676	22,565
Interest income	2,192	2,535	8,447
Total revenue	\$ 286,144	\$ 194,677	\$ 165,191

Monitoring and activation income is recognized pursuant to various lease, bail and rental agreements which specify the terms and conditions of the equipment provided and of the services to be performed. Rental and bail income is recognized on a straight-line basis over the terms of the leases. Revenue from the sale of parts which are required to repair and maintain the monitoring equipment is recognized upon delivery to the lessee or bail client. Maintenance and monitoring service income is recognized when the services are performed.

The Company recognizes sales, leasing and rental revenue over the term of the applicable operating services agreements. The usual term of service agreements is one to five years. Generally, customers have the option to renew or cancel the lease. Rental and service agreements upon the expiration of each term, or in certain circumstances, may be cancelled upon specific notice provided to the Company. In situations where agreements are terminated, the monitoring equipment is returned to the Company with no further obligation on behalf of the customer.

Expenses

During the quarter ended October 31, 2016, expenses increased by 15% compared to 2015 principally due to the fluctuations in depreciation, equipment rent and installation, monitoring and activation fees and professional fees.

Category	Changes – fiscal quarter ended October 31, 2016 compared to fiscal quarter ended October 31, 2015
Depreciation	Decrease: Equipment for Saskatchewan was fully depreciated due to end of original five-year contract term.
Monitoring and activation fees	Increase: Saskatchewan, CSC and Bail program expansion.
Office	Increase: Greater use of courier service by CSC and Bail clients.
Repairs and maintenance	Increase: Increase in use of certain equipment by Saskatchewan, CSC and Bail clients.
Share-based payments	Increase: Due to options granted.

Net Income

For the quarter ended October 31, 2016, the Company recorded a net income of \$10,631, compared to a net loss of \$45,434 during the quarter ended October 31, 2015. This increase in net income is primarily due to the increase in revenues driven by Saskatchewan, CSC and Bail clients offset by increased expenses connected to the start up of a number of contracts.

Item 6 and 7. Liquidity and Capital Resources

Liquidity

At October 31, 2016, the Company had cash and cash equivalents of \$1,305,607 and working capital of \$1,174,539. All cash and cash equivalents are on deposit with a Schedule I bank in Canada in current or interest accruing accounts.

	As at October 31, 2016	As at July 31, 2016
Current assets	\$ 1,468,176	\$ 1,442,280
Equipment	2,333	2,506
Total assets	<u>1,470,509</u>	<u>1,444,786</u>
Current liabilities	293,637	286,283
Total liabilities	<u>293,637</u>	<u>286,283</u>
Stockholders' equity	<u>\$ 1,176,872</u>	<u>\$ 1,158,503</u>
Working capital	<u>\$ 1,174,539</u>	<u>\$ 1,155,997</u>

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

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

The Company continues to monitor expenses, while at the same time is experiencing greater fluctuations in revenues from quarter to quarter. These fluctuations result as more customers move to rental agreements compared to lease agreements. Rental agreements allow Provincial and Federal customers the risk reduction and flexibility to start programs that in some cases would not have happened without the rental component. A combination of an increase in revenue and an increase in expenses resulted in a net income of \$10,631 for the quarter ended October 31, 2016, compared to a net loss of \$45,434 for the quarter ended October 31, 2015.

During its fiscal year ending July 31, 2017, the Company expects to record losses of approximately \$50,000 excluding expenses that may be incurred in connection with a potential acquisition or business combination and any revenues or expenses resulting from an expansion of the Company's business or acquisition program.

Except as described above, the Company's management is not aware of any other trends or other expected fluctuations in its liquidity that would create any deficiencies. The Company's management believes that its cash balances will be sufficient to meet the Company's short-term and long-term requirements for ongoing operations and planned growth.

Capital Requirements and Resources

The Company anticipates that it will have little need to acquire property and equipment over the next year. If the Company is required to purchase additional equipment to service an agreement, the Company would utilize its available cash to finance these capital expenditures.

Item 9. Transactions with Related Parties

There are standard compensation arrangements under which the directors of the Company are compensated for services in their capacity as directors (including any additional amounts payable for committee participation or special assignments). An annual payment of \$5,000 is made to each director, and a fee of \$500 is paid per board meeting attended. In addition to these amounts, the Chair of the Audit Committee is paid an additional \$2,500 per year for the review of interim and annual financial reports. The directors did not receive compensation for services as consultants during the three month periods ended October 31, 2016 and 2015.

Nature of expenditure	Three months ended October 31, 2016	Three months ended October 31, 2015
Accounting and administrative fees	\$ 7,500	\$ 7,500
Directors' fees	6,250	6,250
Salaries and benefits	67,254	67,865
Share-based payments	7,738	
	\$ 88,742	\$ 81,615

During the quarter ended October 31, 2016, \$6,250 (October 31, 2015 – \$6,250) was accrued or paid to the directors of the Company as directors' fees. At October 31, 2016, \$3,500 (July 31, 2016 - \$3,500) is due to the directors and is included in accounts payable and accrued liabilities.

During the quarter ended October 31, 2016, accounting fees of \$7,500 (October 31, 2015 - \$7,500) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. At October 31, 2016, \$2,625 (July 31, 2016 - \$2,625) 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.

Item 12. Critical Accounting Estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expense during the reported periods. Actual results could differ from those estimates.

Reference should be made to Note 3 - Significant Accounting Policies - in the notes to the Company's audited financial statements for the years ended July 31, 2016 and 2015 for more information concerning the accounting principles used in the preparation of the Company's audited financial statements.

Item 13. Future Changes in Accounting Standards

A number of new standards, amendments to standards and interpretations are not yet effective as of October 31, 2016 and have not been applied in preparing these financial statements. These new standards and interpretation are not expected to have a material effect on the financial statements of the Company. The Company intends to adopt the following standards when they become effective:

IFRS 9 - Financial Instruments, Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet determined the impact of the amendments to IFRS 9 on its financial statements.

IFRS 15 – Revenue from contracts with customers

IFRS 15 applies to all contracts with customers and provides a comprehensive framework for the recognition, measurement and disclosure of revenue from contracts with customers, except for: leases, insurance contracts and financial instruments. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018 and is available for early adoption. The Company has not yet determined the impact of IFRS 15 on its financial statements.

IFRS 16 – Leases

IFRS 16 replaces the previous leases Standard, IAS 17 Leases, and related Interpretations. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, lessee and lessor. IFRS is effective from January 1, 2019. A company can choose to apply IFRS 16 before that date but only if it also applies IFRS 15 Revenue from contracts with customers. The Company has not yet determined the impact of IFRS 16 on its financial statements.

Item 14. Financial Instruments and Other Instruments

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

Financial Risk Management

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

The Company maintains cash deposits with financial institutions, which, from time to time, may exceed federally insured limits. The Company believes it is not exposed to any significant credit risk from cash. At October 31, 2016, the Company had \$1,305,607 in cash balances.

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

Financial Instruments Risk Exposure

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

Credit Risk

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

Liquidity Risk

The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at October 31, 2016, the Company had cash of \$1,305,607 to settle \$293,637 in current liabilities, which fall due for payment within twelve months of the statement of financial position.

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

Market Risk

The market risk exposure to which the Company is exposed is interest rate risk. The Company's bank account earns interest income at variable rates. The Company's future interest income is exposed to short-term rate fluctuations. This is not a significant risk to the Company.

Foreign Exchange Risk

As at October 31, 2016, all of the Company's cash balances were held in Canada in Canadian dollars. As a result, the Company's exposure to fluctuations in foreign exchange rates on cash is limited.

Item 15. Other Information**Share Capital**

The Company has only three classes of share capital:

Common shares:	Unlimited, no par value
First preference shares:	Unlimited, no par value, issuable in series
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend

As at October 31, 2016 and December 20, 2016, 2,485,654 common shares were outstanding.

Stock Options

The Company adopted a fixed stock option plan that permits the directors of the Company to grant incentive stock options to employees, directors and consultants of the Company. The maximum number of shares issuable under the plan, which follows the policies of the TSXV regarding stock option awards, is 471,118. Options granted under the plan vest in 6 equal installments over a period of 18 months, with the first installment vesting immediately, and the remaining options vesting upon 6, 9, 12, 15 and 18 months after the date of grant. The option exercise price is generally set as the market price at the time of grant; however, a discount from the market price is permitted under the plan, subject to the policies of the TSXV.

On September 17, 2009, the Company granted 195,000 stock options to officers and directors, at a price of \$0.67 per share, expiring September 17, 2014. The options were subject to an 18 month vesting schedule. As at July 31, 2011, the options were fully vested.

During the year ended July 31, 2013, 15,000 options for a former officer had not been exercised and are no longer outstanding as a result of this departure.

As at July 31, 2014, 180,000 shares were issuable upon the exercise of outstanding stock options and 256,834 shares were available for future stock option grants.

On August 19, 2014, 90,000 shares of these stock options granted were exercised at a price of \$0.67 per share for consideration totaling \$60,300. The remaining stock options granted expired on September 17, 2014.

On December 3, 2015, the Company granted 346,830 stock options to officers and directors, at a price of \$0.345 per share, expiring on December 2, 2020. The fair value of the options granted was estimated on the date of grant at \$62,350 using the Black-Scholes option-pricing model. For the quarter ended October 31, 2016, \$7,738 (October 31, 2015 - \$Nil) was recognized as share-based payments in the Statement of Operations. As at October 31, 2016, and December 20, 2016, one-half of the options were vested and 4 shares are available for future stock option grants.

One-time special dividend

On September 11, 2014, the Company announced that the board of directors has approved the payment of a one-time special dividend of \$0.59 per common share (the "Special Dividend"). The Special Dividend was payable to shareholders of record as of the close of business on September 19, 2014. The Special Dividend resulted in a dividend declaration of \$1,466,536 on October 2, 2014. As of October 31, 2016 and December

20, 2016, \$1,353,448 of the dividends declared had been paid and \$113,088 is recorded in accounts payable and accrued liabilities.

Warrants

None outstanding.

Disclosure Controls and Procedures

The Company has controls and procedures in place to provide reasonable assurance that all required disclosure under securities legislation is recorded, processed and reported within the applicable time periods and to ensure that required information is gathered and communicated to management so that decisions about timely disclosure can be made. The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's disclosure controls and procedures for the quarter ended October 31, 2016 and have found those controls to be adequate for the above purposes. There have been no significant changes in the Company's disclosure controls or in other factors that could significantly affect disclosure controls subsequent to the date the Company carried out its evaluation.

Internal Controls and Procedures

The Company's Chief Executive Officer and Chief Financial Officer have evaluated the Company's internal controls and procedures for the quarter ended October 31, 2016. They have concluded that the Company's disclosure controls and procedures were effective to provide reasonable assurance that all material financial information relating to the Company was made known to them by others within the Company in order for them to complete their analysis and review of the financial position and results of the Company.

This evaluation of the design of internal controls over financial reporting ("ICFR") for the Company resulted in the identification of internal control deficiencies which are not atypical for a company of this size including lack of segregation of duties due to a limited number of employees dealing with accounting and financial matters and insufficient in-house expertise to deal with complex accounting, reporting and taxation issues. There have been no changes in the Company's ICFR during the quarter ended October 31, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Additional Information

Additional information relating to the Company is available on the SEDAR website at www.sedar.com and on the Company's website at www.JEMTEC.ca