

JEMTEC INC.

Management Discussion and Analysis

January 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 quarter ended January 31, 2023. The following information should be read in conjunction with the accompanying condensed interim financial statements and the notes thereto as at January 31, 2023. This MD&A is meant to be an update of the MD&A for the fiscal year ended July 31, 2022, dated November 22, 2022, 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: March 28, 2023

This Management Discussion and Analysis, dated March 28, 2023, accompanies the condensed interim financial statements of the Company for the quarter ended January 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.

Over the past year, most of the Company’s agreements have been renewed and/or extended.

On March 5, 2015, Public Works and Government Services Canada (“PWGSC”) confirmed that Jemtec’s solution 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.

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.

In February 2017, the Company extended its agreement with the Province of Saskatchewan for a three-year term to March 31, 2020 with two optional extensions of up to one year each. In March 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.

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 will have a significant effect on the Company’s sales and operations.

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 International Financial Reporting Standards (“IFRS”).

	For the three months ended January 31,			For the six months ended January 31,		
	2023	2022	2021	2023	2022	2021
Revenues	\$ 363,981	\$ 733,384	\$ 656,562	\$ 743,173	\$ 1,501,508	\$ 1,267,723
Expenses	453,055	521,923	462,166	849,873	997,156	885,766
Income tax	(3,655)	(58,000)	(45,000)	(2,655)	(137,000)	(93,000)
Net (loss) income	\$ (92,729)	\$ 153,461	\$ 149,396	\$ (109,355)	\$ 367,352	\$ 288,957
(Loss) earnings per share						
Basic	\$ (0.033)	\$ 0.055	\$ 0.054	\$ (0.039)	\$ 0.131	\$ 0.105
Diluted	\$ (0.033)	\$ 0.054	\$ 0.053	\$ (0.039)	\$ 0.129	\$ 0.104

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							
	January	October	July	April	January	October	July	April
	31 2023	31 2022	31 2022	30 2022	31 2022	31 2021	31 2021	30 2021
Revenue	\$ 363,981	\$ 379,192	\$ 575,576	\$ 732,919	\$ 733,384	\$ 768,123	\$ 689,264	\$ 609,984
Expenses	453,055	396,819	473,318	558,572	521,923	475,232	521,061	483,534
Income tax	(3,655)	1,000	(37,000)	(56,000)	(58,000)	(79,000)	9,000	(31,000)
Net(loss)income	\$(92,729)	\$ (16,627)	\$ 65,258	\$ 118,347	\$ 153,461	\$ 213,891	\$ 177,203	\$ 95,450
(Loss) earnings per share								
Basic	\$ (0.033)	\$ (0.006)	\$ 0.023	\$ 0.042	\$ 0.055	\$ 0.077	\$ 0.063	\$ 0.034
Diluted	\$ (0.033)	\$ (0.006)	\$ 0.022	\$ 0.042	\$ 0.054	\$ 0.075	\$ 0.062	\$ 0.033

Revenues

Revenues have decreased by 51% during the quarter ended January 31, 2023 compared to the quarter ended January 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.

	Quarters Ended January 31,		
	2023	2022	2021
Revenue			
Leasing, monitoring and activation	\$ 335,671	\$ 713,111	\$ 636,656
Bail	22,228	19,466	19,060
Interest income	6,082	807	846
Total revenue	\$ 363,981	\$ 733,384	\$ 656,562

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

The Company recognizes sales, leasing and rental revenue over the term of the applicable operating services agreements. The usual term of service agreements is one to 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 circumstances, may be cancelled upon specific notice provided to the Company. In situations where agreements are terminated, and the monitoring equipment is rented on a daily basis, it is returned to the Company with no further obligation on behalf of the customer.

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 quarter ended January 31, 2023, expenses decreased by 13% compared to the quarter ended January 31, 2022 primarily due to the fluctuations in consulting fees, equipment rent and installation, monitoring and activation fees, and share-based payments.

Category	Changes – fiscal quarter ended January 31, 2023 compared to fiscal quarter ended January 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.
Share-based payments	Increase: New stock option plan.

Income Tax

For the quarter ended January 31, 2023, the Company recognized a current income tax (recovery) expense of \$(3,345) (January 31, 2022 - \$54,000) and a deferred income tax expense of \$7,000 (January 31, 2022 - \$4,000). The current income tax expense was related to income tax in Canada. The deferred income tax recovery was related to unrecognized deferred tax assets.

Net Income

For the quarter ended January 31, 2023, the Company recorded a net loss of \$92,729, compared to a net income of \$153,461 during the quarter ended January 31, 2022. This decrease in net income is primarily associated with the loss of Ontario contract.

Item 6 and 7. Liquidity and Capital Resources

Liquidity

At January 31, 2023, the Company had cash and cash equivalents of \$2,232,673 and working capital of \$2,271,222. All cash and cash equivalents are on deposit with a Schedule I bank in Canada in current or interest accruing accounts.

	As at January 31, 2023	As at July 31, 2022
Current assets	\$ 2,467,892	\$ 2,536,183
Equipment	64,354	31,923
Deferred income tax assets	34,000	40,000
Total assets	2,566,246	2,608,106
Current liabilities	196,670	173,506
Non-current liabilities	15,074	-
Total liabilities	211,744	173,506
Stockholders' equity	\$ 2,354,502	\$ 2,434,600
Working capital	\$ 2,271,222	\$ 2,362,677

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

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 50% decrease in revenues and a 13% decrease in expenses resulted in a net loss of \$92,729 for the quarter ended January 31, 2023 after a tax provision of \$3,655, compared to a net income of \$153,461 for the quarter ended January 31, 2022 after a tax provision of \$58,000.

During its fiscal year ending July 31, 2023, 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 effected the Company's revenues by approximately 50%. The compensatory effect on net loss for the fiscal year of July 31, 2023 is expected to be 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 quarters ended January 31, 2023 and 2022.

	Three months ended January 31, 2023	Three months ended January 31, 2022	Six months ended January 31, 2023	Six months ended January 31, 2022
Nature of expenditure				
Accounting and administrative fees	\$ 12,600	\$ 10,700	\$ 23,700	\$ 21,200
Directors' fees	34,001	34,145	55,426	55,395
Salary and benefits	75,281	73,444	146,272	146,138
Share-based payments	14,628	-	29,257	-
	\$ 136,510	\$ 118,289	\$ 254,655	\$ 222,733

During the quarter ended January 31, 2023, \$34,001 (January 31, 2022 - \$34,145) was accrued or paid to the directors of the Company as directors' fees. At January 31, 2023, \$7,083 (July 31, 2022 - \$Nil) was due to the directors and was included in accounts payable and accrued liabilities.

During the quarter ended January 31, 2023, \$12,600 (January 31, 2022 - \$10,700) was accrued or paid to a Firm where a Partner in the Firm is an officer of the Company. At January 31, 2023, \$Nil (July 31, 2022 - \$3,700) was owing to this officer and was included in accounts payable and accrued liabilities.

These transactions with related parties have been valued in these financial statements at the fair value. All amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

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, 2022 and 2021 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

The Company has adopted IFRS 16 Leases effective August 1, 2019 in its accounting policies (Note 3(e)). Accordingly, under IFRS 16, the Company recognized a lease liability (Note 5) in relation to an office space, which had previously been classified as operating lease under the principles of IAS 17 Lease with a corresponding right-of-use asset.

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods commencing on or after January 1, 2022. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IAS 1 – Presentation of Financial Statements (“IAS 1”) was amended in January 2020 to clarify the guidance for the classification of liabilities as current or non-current. It could affect the classification of liabilities, particularly for entities that previously considered management’s intentions to determine classification and for some liabilities that can be converted into equity. The amendment is effective for annual reporting periods beginning on or after August 1, 2023.

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), customer deposits and lease 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 January 31, 2023, the Company had \$2,232,673 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 January 31, 2023, the Company had cash of \$2,232,673 to settle \$196,670 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 January 31, 2023, 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 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 January 31, 2023 and July 31, 2022
Second preference shares:	25,000 Series A, no par value, redeemable, \$0.60 non-cumulative dividend - None issued as at January 31, 2023 and July 31, 2022

As at January 31, 2023 and March 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 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, 2019 and 2020, share-based payments were fully recognized in the Statement of Operations. 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 January 31, 2023, 100,000 shares of the options were outstanding.

On March 4, 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. 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 rate of 1.43%; ii) expected life of 4 years; iii) expected annualized volatility of 56.24%; and iv) no dividend yield. As at January 31, 2023, 139,000 shares of the options were outstanding.

Dividend

On December 22, 2020, the Company declared a special dividend in the aggregate amount of \$693,670 (\$0.25 per share) payable to the holders of the issued and outstanding common shares in the capital of the Company. The dividend was payable on February 10, 2021 to the shareholders on record of the Company as of January 6, 2021. On February 10, 2021, the Company distributed the dividend to a third-party company to release the dividend to shareholders. During the year ended July 31, 2021, \$295 of the 2019 derecognized dividends was claimed and paid to a shareholder.

As of January 31, 2023, \$Nil (July 31, 2022 - \$Nil) of the dividend declared 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 January 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 quarter ended January 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 quarter ended January 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.sedar.com and on the Company's website at www.JEMTEC.ca