
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2018

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 0-23153

Track Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

87-0543981

(I.R.S. Employer Identification Number)

200 E. 5th Avenue Suite 100, Naperville, IL 60563

(Address of principal executive offices) (Zip Code)

(877) 260-2010

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of May 1, 2018 was 11,401,650.

Track Group, Inc.
FORM 10-Q
For the Quarterly Period Ended March 31, 2018

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

TRACK GROUP, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

	March 31, 2018 (unaudited)	September 30, 2017
Assets		
<i>Current assets:</i>		
Cash	\$ 2,661,829	\$ 2,027,321
Accounts receivable, net of allowance for doubtful accounts of \$3,532,609 and \$3,268,095, respectively	4,926,116	5,438,564
Note receivable, current portion	234,733	234,733
Prepaid expense and other	5,143,501	854,122
Inventory, net of reserves of \$26,934, respectively	269,924	261,810
Total current assets	13,236,103	8,816,550
Property and equipment, net of accumulated depreciation of \$1,950,847 and \$1,778,634, respectively	913,232	903,100
Monitoring equipment, net of accumulated depreciation of \$5,045,835 and \$4,906,925, respectively	3,149,664	3,493,012
Intangible assets, net of accumulated amortization of \$10,984,263 and \$9,839,032, respectively	23,902,278	24,718,655
Goodwill	8,207,990	8,226,714
Other assets	202,581	2,989,101
Total assets	<u>\$ 49,611,848</u>	<u>\$ 49,147,132</u>
Liabilities and Stockholders' Equity		
<i>Current liabilities:</i>		
Accounts payable	2,731,842	2,769,835
Accrued liabilities	9,109,373	6,650,291
Current portion of long-term debt, net of discount of \$74,324 and \$185,811, respectively	30,370,943	30,270,531
Total current liabilities	42,212,158	39,690,657
Long-term debt, net of current portion	3,451,588	3,480,717
Total liabilities	45,663,746	43,171,374
<i>Stockholders' equity:</i>		
Common stock, \$0.0001 par value: 30,000,000 shares authorized; 10,462,433 and 10,480,984 shares outstanding, respectively	1,046	1,048
Additional paid-in capital	301,038,832	300,717,861
Accumulated deficit	(296,846,405)	(294,067,329)
Accumulated other comprehensive loss	(245,371)	(675,822)
Total equity	3,948,102	5,975,758
Total liabilities and stockholders' equity	<u>\$ 49,611,848</u>	<u>\$ 49,147,132</u>

The accompanying notes are an integral part of these condensed consolidated statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)

	Three Months Ended		Six Months Ended	
	March 31,	March 31,	March 31,	March 31,
	2018	2017	2018	2017
Monitoring services	\$ 7,162,205	\$ 6,986,612	\$ 14,513,010	\$ 14,419,889
Other	153,971	233,431	293,860	471,644
Total revenue	7,316,176	7,220,043	14,806,870	14,891,533
Cost of revenue:				
Monitoring, products & other related services	2,827,842	2,654,305	5,369,849	6,336,368
Depreciation & amortization	467,666	515,574	944,808	961,067
Total cost of revenue	3,295,508	3,169,879	6,314,657	7,297,435
Gross profit	4,020,668	4,050,164	8,492,213	7,594,098
Operating expenses:				
General & administrative	3,495,343	2,355,156	7,153,081	5,530,210
Loss on sale of asset	-	766,031	-	766,031
Restructuring costs	-	4,070	-	570,400
Selling & marketing	518,993	624,210	928,730	1,213,978
Research & development	182,808	679,238	346,754	1,167,416
Depreciation & amortization	539,537	633,273	1,104,277	1,208,384
Total operating expenses	4,736,681	5,061,978	9,532,842	10,456,419
Loss from operations	(716,013)	(1,011,814)	(1,040,629)	(2,862,321)
Other income (expense):				
Interest expense, net	(805,966)	(797,333)	(1,479,793)	(1,444,436)
Currency exchange rate gain (loss)	(221,048)	10,335	(276,120)	(106,107)
Other income, net	6,542	222,414	17,466	222,707
Total other income (expense)	(1,020,472)	(564,584)	(1,738,447)	(1,327,836)
Loss before income taxes	(1,736,485)	(1,576,398)	(2,779,076)	(4,190,157)
Income tax expense	-	9,099	-	9,099
Net loss attributable to common shareholders	(1,736,485)	(1,585,497)	(2,779,076)	(4,199,256)
Foreign currency translation adjustments	241,726	(15,615)	430,451	(509,187)
Comprehensive loss	\$ (1,494,759)	\$ (1,601,112)	\$ (2,348,625)	\$ (4,708,443)
Basic and diluted loss per common share	\$ (0.17)	\$ (0.15)	\$ (0.27)	\$ (0.41)
Weighted average common shares outstanding, basic and diluted	10,462,433	10,352,485	10,469,466	10,342,948

The accompanying notes are an integral part of these condensed consolidated statements.

TRACK GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended	
	March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	\$ (2,779,076)	\$ (4,199,256)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,049,085	2,169,451
Bad debt expense	287,618	668,441
Amortization of debt discount	111,487	111,487
Stock based compensation	1,345,097	(122,678)
Loss on monitoring equipment in cost of revenue	223,114	134,787
Loss on sale of asset	-	766,031
Gain on settlement of milestone payments	-	(213,940)
Change in assets and liabilities:		
Accounts receivable, net	308,839	758,184
Inventories	-	57,700
Prepaid expenses and other	(1,225,045)	(437,576)
Accounts payable	(43,724)	807,185
Accrued expenses	1,496,549	1,497,141
Net cash provided by operating activities	<u>1,773,944</u>	<u>1,996,957</u>
Cash flow from investing activities:		
Purchase of property and equipment	(124,720)	(34,529)
Capitalized software	(502,851)	(1,028,368)
Purchase of monitoring equipment and parts	(494,254)	(960,425)
Proceeds from sale of assets	-	510,000
Net cash used in investing activities	<u>(1,121,825)</u>	<u>(1,513,322)</u>
Cash flow from financing activities:		
Principal payments on notes payable	(36,632)	(34,779)
Net cash used by financing activities	<u>(36,632)</u>	<u>(34,779)</u>
Effect of exchange rate changes on cash	19,021	(78)
Net increase in cash	634,508	448,778
Cash, beginning of period	2,027,321	1,769,921
Cash, end of period	<u>\$ 2,661,829</u>	<u>\$ 2,218,699</u>
Cash paid for interest	\$ 22,483	\$ 10,065
Supplemental schedule of non-cash investing and financing activities:		
Non-cash transfer of inventory to monitoring equipment	\$ 88,242	\$ 309,710

The accompanying notes are an integral part of these condensed consolidated statements.

TRACK GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(1) BASIS OF PRESENTATION

The unaudited interim condensed consolidated financial information of Track Group, Inc. and subsidiaries (collectively, the “*Company*” or “*Track Group*”) has been prepared in accordance with the Instructions to Form 10-Q and Article 8 of Regulation S-X promulgated by the Securities and Exchange Commission (“*SEC*”). Certain information and disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“*GAAP*”) have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the accompanying interim consolidated financial information contains all adjustments, consisting only of normal recurring adjustments necessary to present fairly the Company’s financial position as of March 31, 2018, and results of its operations for the three and six months ended March 31, 2018. These financial statements should be read in conjunction with the audited annual consolidated financial statements and notes thereto that are included in the Company’s Annual Report on Form 10-K for the year ended September 30, 2017, filed with the SEC on December 19, 2017. The results of operations for the three and six months ended March 31, 2018 may not be indicative of the results for the fiscal year ending September 30, 2018.

As of March 31, 2018 and 2017, the Company had an accumulated deficit of \$296,846,405 and \$293,540,759, respectively. The Company incurred a net loss of \$2,779,076 and \$4,199,256 for the six months ended March 31, 2018 and 2017, respectively. The Company may continue to incur losses and require additional financial resources. The Company also has debt maturing in the next six months. The Company’s successful development and transition to attaining profitable operations is dependent upon achieving a level of revenue adequate to support its cost structure. The Company expects to fund operations using cash on hand, through operational cash flows and the restructuring of its existing debt agreement. Management of the Company believes that the availability of financing from these sources is adequate to fund operations through the next twelve months.

(2) PRINCIPLES OF CONSOLIDATION

The condensed consolidated financial statements include the accounts of Track Group and its subsidiaries. All significant inter-company transactions have been eliminated in consolidation.

(3) RECENT ACCOUNTING STANDARDS

From time to time, new accounting pronouncements are issued by the Financial Accounting Standards Board (“*FASB*”) or other standard setting bodies, which are adopted by the Company as of the specified effective date. During the three months ended March 31, 2018, there were no new accounting pronouncements that had a material impact on the Company’s consolidated financial statements.

Recently adopted accounting standards

In July 2015, the FASB issued ASU No. 2015-11, “*Inventory (Topic 330) - Simplifying the Measurement of Inventory*” (“*ASU 2015-11*”), which dictates that an entity should measure inventory within the scope of this update at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The Company adopted this standard in the first quarter of fiscal year 2018. The Company’s adoption of ASU 2015-11 did not have a material impact on its Consolidated Financial Statements.

Recently issued accounting standards

In January 2017, the FASB issued ASU 2017-04, “*Intangibles – Goodwill and Other: Simplifying the Test for Goodwill Impairment.*” The new guidance simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. The new guidance will be effective for annual periods or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019. The amendment should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In August 2016, the FASB issued ASU 2016-15, “*Statement of Cash Flows (Topic 230)*” requiring the classification of certain cash receipts and cash payments to conform the presentation in the statement of cash flows for certain transactions, including cash distributions from equity method investments, among others. The adoption of the new standard is required in 2019. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In February 2016, FASB issued ASU No. 2016-02, “*Leases (Topic 841)*.” For lessees, the amendments in this update require that for all leases not considered to be short term, a company recognize both a lease liability and right-of-use asset on its balance sheet, representing the obligation to make payments and the right to use or control the use of a specified asset for the lease term. The amendments in this update are effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods. Management does not anticipate that this adoption will have a significant impact on its consolidated financial position, results of operations, or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, “*Revenue from Contracts with Customers*” which supersedes the guidance in “*Revenue Recognition (Topic 605)*” (“*ASU 2014-09*”) and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period and is to be applied retrospectively, with early application not permitted. The Company has evaluated the new standard and anticipates a change in the reporting of revenue as enhanced disclosures will be required. The Company does not anticipate a significant impact on our financial statements due to the nature of our revenue streams and our revenue recognition policy.

(4) IMPAIRMENT OF LONG-LIVED ASSETS

The Company reviews its long-lived assets for impairment when events or changes in circumstances indicate that the book value of an asset may not be recoverable and in the case of goodwill, at least annually. The Company evaluates whether events and circumstances have occurred which indicate possible impairment as of each balance sheet date. If the carrying amount of an asset exceeds its fair value, an impairment charge is recognized for the amount by which the carrying amount exceeds the estimated fair value of the asset. Impairment of long-lived assets is assessed at the lowest levels for which there is an identifiable fair value that is independent of other groups of assets

(5) BUSINESS COMBINATIONS

The Company accounts for its business acquisitions under the acquisition method of accounting as indicated in ASC 805, Business Combinations, which requires the acquiring entity in a business combination to recognize the fair value of all assets acquired, liabilities assumed, and any non-controlling interest in the acquiree, and establishes the acquisition date as the fair value measurement point. Accordingly, the Company recognizes assets acquired and liabilities assumed in business combinations, including contingent assets and liabilities and non-controlling interest in the acquiree, based on fair value estimates as of the date of acquisition. In accordance with ASC 805, the Company recognizes and measures goodwill as of the acquisition date, as the excess of the fair value of the consideration paid over the fair value of the identified net assets acquired.

Acquired Assets and Assumed Liabilities

Pursuant to ASC No. 805-10-25, if the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, but during the allowed measurement period not to exceed one year from the acquisition date, the Company retrospectively adjusts the provisional amounts recognized at the acquisition date, by means of adjusting the amount recognized for goodwill.

Contingent Consideration

In certain acquisitions, the Company has agreed to pay additional amounts to sellers contingent upon achievement by the acquired businesses of certain future goals, which may include revenue milestones, new customer accounts, and earnings targets. The Company records contingent consideration based on its estimated fair value as of the date of the acquisition. The Company evaluates and adjusts the value of contingent consideration, if necessary, at each reporting period based on the progress toward and likely achievement of certain targets on which issuance of the contingent consideration is based. Any differences between the acquisition-date fair value and the changes in fair value of the contingent consideration subsequent to the acquisition date are recognized in current period earnings until the arrangement is settled. If there is uncertainty surrounding the value of contingent consideration, then the Company's policy is to wait until the end of the measurement period before making an adjustment.

(6) ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) includes net income (loss) as currently reported under GAAP and other comprehensive income (loss). Other comprehensive income (loss) considers the effects of additional economic events, such as foreign currency translation adjustments, that are not required to be recorded in determining net income (loss), but rather are reported as a separate component of stockholders' equity. The Chilean Peso, New Israeli Shekel and the Canadian Dollar are used as functional currencies of the following operating subsidiaries: (i) Track Group Chile SpA; (ii) Track Group International Ltd.; and (iii) Track Group Analytics Limited, respectively. The balance sheets of all subsidiaries have been converted into United States Dollars (USD) at the prevailing exchange rate at March 31, 2018.

(7) NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share ("*Basic EPS*") is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted net income (loss) per common share ("*Diluted EPS*") is computed by dividing net income (loss) attributable to common shareholders by the sum of the weighted-average number of common shares outstanding and the weighted-average dilutive common share equivalents outstanding. The computation of Diluted EPS does not assume exercise or conversion of securities that would have an anti-dilutive effect.

Common share equivalents consist of shares issuable upon the exercise of common stock options and warrants. As of March 31, 2018 and 2017, there were 573,800 and 434,419 outstanding common share equivalents, respectively, that were not included in the computation of Diluted EPS for the three and six months ended March 31, 2018 and 2017, respectively, as their effect would be anti-dilutive. The common stock equivalents outstanding as of March 31, 2018 and 2017 consisted of the following:

	March 31, 2018	March 31, 2017
Exercisable common stock options and warrants	573,800	434,419
Total common stock equivalents	573,800	434,419

(8) PREPAID EXPENSE AND OTHER

The carrying amounts reported in the balance sheets for prepaid expense and other current assets approximate their fair market value based on the short-term maturity of these instruments. As of March 31, 2018, and September 30, 2017, the outstanding balance of prepaid and other expense was \$5,143,501 and \$854,122, respectively. The \$5,143,501 as of March 31, 2018 is comprised largely of performance bond deposits, tax deposits, vendor deposits and other prepaid supplier expense. The increase in prepaid and other expense at March 31, 2018 was primarily due to a cash collateralized performance bond for an international customer of \$2,944,631, which is scheduled to be repaid in the third fiscal quarter and was re-classified as a short-term asset in the three-month period ended December 31, 2017, as well as increases in a new performance bond, prepaid taxes, vendor deposits and insurance.

(9) INVENTORY

Inventory is valued at the lower of the cost or net realizable value. Cost is determined using the first-in, first-out (“FIFO”) method. Net realizable value is determined based on the estimated selling prices on the ordinary course of business less reasonably predictable costs of completion, disposal and transportation. Inventory is periodically reviewed in order to identify obsolete, damaged or impaired items.

Inventory consists of finished goods that are to be shipped to customers and parts used for minor repairs of ReliAlert™, Shadow, and other tracking devices. Completed and shipped ReliAlert™ and other tracking devices are reflected in Monitoring Equipment. As of March 31, 2018 and September 30, 2017, respectively, inventory consisted of the following:

	March 31, 2018	September 30, 2017
Finished goods inventory	\$ 296,858	\$ 288,744
Reserve for damaged or obsolete inventory	(26,934)	(26,934)
Total inventory, net of reserves	<u>\$ 269,924</u>	<u>\$ 261,810</u>

(10) PROPERTY AND EQUIPMENT

The following table summarizes property and equipment at March 31, 2018 and September 30, 2017, respectively:

	March 31, 2018	September 30, 2017
Equipment, software and tooling	\$ 1,054,252	\$ 1,028,081
Automobiles	40,182	52,230
Leasehold improvements	1,460,796	1,307,802
Furniture and fixtures	308,849	293,621
Total property and equipment before accumulated depreciation	2,864,079	2,681,734
Accumulated depreciation	(1,950,847)	(1,778,634)
Property and equipment, net of accumulated depreciation	<u>\$ 913,232</u>	<u>\$ 903,100</u>

Property and equipment depreciation expense for the three months ended March 31, 2018 and 2017 was \$87,466 and \$127,298, respectively. Property and equipment depreciation expense for the six months ended March 31, 2018 and 2017 was \$201,883 and \$177,588, respectively.

(11) MONITORING EQUIPMENT

The Company leases monitoring equipment to agencies for offender tracking under contractual service agreements. The monitoring equipment is amortized using the straight-line method over an estimated useful life of one to five years. Monitoring equipment as of March 31, 2018 and September 30, 2017 was as follows:

	March 31, 2018	September 30, 2017
Monitoring equipment	\$ 8,195,502	\$ 8,399,937
Less: accumulated depreciation	(5,045,838)	(4,906,925)
Monitoring equipment, net of accumulated depreciation	<u>\$ 3,149,664</u>	<u>\$ 3,493,012</u>

Depreciation of monitoring equipment for the three months ended March 31, 2018 and 2017 was \$343,494 and \$403,074, respectively. Depreciation of monitoring equipment for the six months ended March 31, 2018 and 2017 was \$696,521 and \$736,067, respectively. Depreciation expense for monitoring devices is recognized in cost of revenue. During the three months ended March 31, 2018 and March 31, 2017, the Company recorded charges of \$127,297 and \$60,000 respectively, for devices that were lost, stolen, damaged or otherwise impaired. During the six months ended March 31, 2018 and March 31, 2017, the Company recorded charges of \$223,114 and \$134,787 respectively, for devices that were lost, stolen, damaged or otherwise impaired. Lost, stolen and damaged items are included in Monitoring, products & other related services in the Condensed Consolidated Statement of Operations.

As part of a loss on sale of assets, the Company disposed of \$771,568 of monitoring equipment and \$361,463 of related accumulated depreciation in the three and six month periods ended March 31, 2017.

(12) INTANGIBLE ASSETS

The following table summarizes intangible assets at March 31, 2018 and September 30, 2017, respectively:

	March 31, 2018	September 30, 2017
Other intangible assets:		
Patent & royalty agreements	21,170,565	21,170,565
Developed technology	11,444,880	11,116,738
Customer relationships	1,860,000	1,860,000
Trade name	332,895	332,183
Website	<u>78,201</u>	<u>78,201</u>
Total intangible assets	34,886,541	34,557,687
Accumulated amortization	<u>(10,984,263)</u>	<u>(9,839,032)</u>
Intangible assets, net	<u>\$ 23,902,278</u>	<u>\$ 24,718,655</u>

The intangible assets summarized above were purchased or developed on various dates from January 2010 through March 2018. The assets have useful lives ranging from three to twenty years. Amortization expense for the three months ended March 31, 2018 and 2017 was \$576,244 and \$618,475, respectively. Amortization expense for the six months ended March 31, 2018 and 2017 was \$1,150,682 and \$1,255,796, respectively.

(13) GOODWILL

The following table summarizes the activity of goodwill at March 31, 2018 and September 30, 2017, respectively:

	March 31, 2018	September 30, 2017
Balance - beginning of period	\$ 8,226,714	\$ 7,955,876
Effect of foreign currency translation on goodwill	(18,724)	270,838
Balance - end of period	<u>\$ 8,207,990</u>	<u>\$ 8,226,714</u>

Goodwill is recognized in connection with acquisition transactions in accordance with ASC 805. The Company performs an impairment test for goodwill annually or more frequently if indicators of potential impairment exist. No impairment of goodwill was recognized through March 31, 2018.

(14) OTHER ASSETS

As of March 31, 2018 and September 30, 2017, the outstanding balance of other assets was \$202,581 and \$2,989,101, respectively. A cash collateralized performance bond for an international customer, which is expected to be repaid in the third fiscal quarter was re-classified as a current asset in the three-month period ended December 31, 2017, and thus was classified as such for the period ended March 31, 2018.

(15) ACCRUED LIABILITIES

Accrued liabilities consisted of the following as of March 31, 2018 and September 30, 2017:

	March 31, 2018	September 30, 2017
Accrued payroll, taxes and employee benefits	\$ 1,948,281	\$ 943,066
Deferred revenue	241,458	43,333
Accrued taxes - foreign and domestic	245,003	529,926
Accrued settlement costs	-	200,000
Accrued board of directors fees	439,722	125,000
Accrued other expense	217,417	142,390
Accrued legal costs	30,000	116,824
Accrued cellular costs	24,000	81,100
Accrued costs of revenue	278,770	141,884
Accrued bond guarantee	196,494	23,548
Accrued interest	5,488,228	4,303,220
Total accrued liabilities	<u>\$ 9,109,373</u>	<u>\$ 6,650,291</u>

(16) DEBT OBLIGATIONS

On September 25, 2015, the Company entered into a loan agreement (the “*Sapinda Loan Agreement*”) with Sapinda Asia Limited (“*Sapinda*”), a related party, to provide the Company with a \$5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Sapinda Loan Agreement, available funds may be drawn down at the Company’s request at any time prior to the maturity date of September 30, 2017 (the “*Maturity Date*”), when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the Sapinda Loan Agreement prior to the Maturity Date without penalties or fees.

On March 13, 2017 (the “*Execution Date*”), the Company and Sapinda entered into Amendment Number One to the Sapinda Loan Agreement. Amendment Number One extends the maturity date of all loans made pursuant to the Sapinda Loan Agreement to September 30, 2020. In addition, Amendment Number One eliminates the requirement that the Company pay Sapinda the 3% interest, and forgives the 3% interest due to Sapinda for all undrawn funds under the Sapinda Loan Agreement through the Execution Date. Further, Amendment Number One provides that all failure to fund penalties (“*Lender Penalties*”) accrued under the Sapinda Loan Agreement through the Execution Date are forgiven. Per Amendment Number One, Lender Penalties shall begin to accrue again provided Sapinda has not funded the amount of \$1.5 million on or before March 31, 2017. In breach of Amendment Number One, Sapinda failed to fund the \$1.5 million by March 31, 2017. The Company formally notified Sapinda of the breach by letter dated April 4, 2017. The Company is again accruing Lender Penalties, amounting to \$365,000 at March 31, 2018, under Section 6.3 of the Sapinda Loan Agreement, as amended. The Company did not draw on this line of credit, nor did the Company pay any interest during the six months ended March 31, 2018. The undrawn balance of this line of credit at March 31, 2018 was \$1,600,356.

On October 9, 2017, the Company entered into a Debt Exchange Agreement with Conrent regarding total debt and unpaid interest of approximately \$34.7 million as of October 31, 2017 (the “*Debt*”) (the “*Debt Exchange*”) associated with the Amended and Restated Unsecured Facility Agreement dated June 30, 2015 (the “*Facility Agreement*”) between Conrent Invest S.A. and the Company. The Debt Exchange called for the Company to exchange newly issued shares of preferred stock for the entire Debt subject to approval by the investors who purchased securities from Conrent to finance the Debt (the “*Noteholders*”). On November 2, 2017, Conrent convened a meeting of the Noteholders to approve the Debt Exchange; however, the quorum required to approve the Debt Exchange was not achieved, resulting in the termination of the Debt Exchange.

On February 26, 2018, the Company proposed that the maturity date of the Facility Agreement be extended from July 31, 2018 to April 1, 2019. On April 26, 2018, the Noteholders approved the extension of the Facility Agreement from July 31, 2018 to April 1, 2019, subject to the satisfaction of certain conditions, which are currently under discussion by the Company and Conrent.

Debt obligations as of March 31, 2018 and September 30, 2017, respectively, are comprised of the following:

	March 31, 2018	September 30, 2017
Unsecured facility agreement with an entity whereby, as of June 30, 2015, the Company may borrow up to \$30.4 million bearing interest at a rate of 8% per annum, payable in arrears semi-annually, with all principal and accrued and unpaid interest due on July 31, 2018. A \$1.2 million origination fee was paid and recorded as a debt discount and will be amortized as interest expense over the term of the loan. As of March 31, 2018, the remaining debt discount was \$74,324. We did not pay interest on this loan during the six months ended March 31, 2018.	\$ 30,325,676	\$ 30,214,189
Loan Agreement whereby the Company can borrow up to \$5.0 million at 8% interest per annum on borrowed funds maturing on September 30, 2020.	3,399,644	3,399,644
Non-interest bearing notes payable to a Canadian governmental agency assumed in conjunction with the G2 acquisition.	86,432	123,393
Capital lease with effective interest rate of 12%. Lease matures August 15, 2019.	10,779	14,022
Total debt obligations	33,822,531	33,751,248
Less current portion	(30,370,943)	(30,270,531)
Long-term debt, net of current portion	<u>\$ 3,451,588</u>	<u>\$ 3,480,717</u>

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The following table summarizes our future maturities of debt obligations, net of the amortization of debt discounts as of March 31, 2018:

Twelve-month period ended	Total
March 31, 2019	\$ 30,445,267
March 31, 2020	41,132
March 31, 2021	3,410,456
Thereafter	-
Debt discount	(74,324)
Total	<u>\$ 33,822,531</u>

(17) RELATED-PARTY TRANSACTIONS

Related-Party Loan Agreement

On September 25, 2015, the Company entered into the Sapinda Loan Agreement with Sapinda, a related party, to provide the Company with a \$5.0 million line of credit that accrues interest at a rate of 3% per annum for undrawn funds, and 8% per annum for borrowed funds. Pursuant to the terms and conditions of the Sapinda Loan Agreement, available funds may be drawn down at the Company's request at any time prior to the maturity date of September 30, 2017 (the "Maturity Date"), when all borrowed funds, plus all accrued but unpaid interest will become due and payable. The Company, however, may elect to satisfy any outstanding obligations under the Sapinda Loan Agreement prior to the Maturity Date without penalties or fees.

On March 13, 2017, the Company and Sapinda entered into Amendment Number One to the Sapinda Loan Agreement. Amendment Number One extends the maturity date of all loans made pursuant to the Sapinda Loan Agreement to September 30, 2020. In addition, Amendment Number One eliminates the requirement that the Company pay Sapinda the 3% interest, and forgives the 3% interest due to Sapinda for all undrawn funds under the Sapinda Loan Agreement through the Execution Date. Further, Amendment Number One provides that all Lender Penalties accrued under the Sapinda Loan Agreement through the Execution Date are forgiven. Per Amendment Number One, Lender Penalties shall begin to accrue again provided Sapinda has not funded the amount of \$1.5 million on or before March 31, 2017. In breach of Amendment Number One, Sapinda failed to fund the \$1.5 million by March 31, 2017. The Company formally notified Sapinda of the breach by letter dated April 4, 2017. The Company is again accruing Lender Penalties, amounting to \$365,000 at March 31, 2018, under Section 6.3 of the Sapinda Loan Agreement, as amended, and the Company intends to offset Lender Penalties against future payments due. We did not draw on this line of credit, nor did we pay any interest during the six months ended March 31, 2018. The undrawn balance of this line of credit at March 31, 2018 was \$1,600,356. Further advances under the Sapinda Loan Agreement are not currently expected to be forthcoming, and therefore no assurances can be given that the Company will obtain additional funds to which it is entitled under the Sapinda Loan Agreement, or that the penalties accruing will ever be paid.

Additional Related-Party Transactions and Summary of All Related-Party Obligations

	Mar. 31, 2018	Sept. 30, 2017
Related party loan with an interest rate of 8% per annum for borrowed funds. Principal and interest due September 30, 2020.	\$ 3,399,644	\$ 3,399,644
Total related-party debt obligations	<u>\$ 3,399,644</u>	<u>\$ 3,399,644</u>

Each of the foregoing related-party transactions was reviewed and approved by disinterested and independent members of the Company's Board of Directors.

As of December 27, 2017 Sapinda was no longer a related party, as 4,871,745 or 46.5% of the Company's common shares owned by Sapinda were delivered to an unrelated entity.

(18) PREFERRED AND COMMON STOCK

The Company is authorized to issue up to 30,000,000 shares of common stock, \$0.0001 par value per share. During the six months ended March 31, 2018, no shares of common stock were issued to Board of Director members for their services earned in the first two quarters of 2018. The Company has deferred the issuance of shares of common stock and warrants since the fourth quarter of 2017, and \$439,722 for unpaid Board of Director fees has been accrued at March 31, 2018. See Note 22.

The Company is authorized to issue up to 20,000,000 shares of preferred stock, \$0.0001 par value per share. The Company's Board of Directors has the authority to amend the Company's Certificate of Incorporation, without further shareholder approval, to designate and determine, in whole or in part, the preferences, limitations and relative rights of the preferred stock before any issuance of the preferred stock, and to create one or more series of preferred stock. As of March 31, 2018, there were no shares of preferred stock outstanding.

In November 2017, the Board of Directors approved the grant of 241,935 shares of common stock valued at \$300,000, as compensation for services rendered to the Company, which have not yet been issued. In addition, the Company issued 30,797 warrants to a member of the Company's Board of Directors in exchange for 18,551 shares of common stock the director previously received for services provided during the period of October 2016 to June 2017, which shares were thereby cancelled in the six-month period ended March 31, 2018. See Note 22.

In January 2018, the Board of Directors approved the grant of 450,000 shares of common stock valued at \$472,500, as compensation for services to the Company, of which 150,000 are vested, but have not yet been issued. Also, in February 2018 and March 2018, respectively, 12,500 and 30,000 shares of stock vested from compensation for services, which have not been issued. See Note 22.

(19) STOCK OPTIONS AND WARRANTS

Stock Incentive Plan

At the annual meeting of shareholders on March 21, 2011, the shareholders approved the 2012 Equity Compensation Plan (the "2012 Plan"). The 2012 Plan provides for the grant of incentive stock options and nonqualified stock options, restricted stock, stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, other stock-based awards and performance-based awards to employees and certain non-employees who provide services to the Company in lieu of cash. A total of 90,000 shares were initially authorized for issuance pursuant to awards granted under the 2012 Plan. At the 2015 annual meeting of shareholders held on May 19, 2015, our stockholders approved a 713,262 share increase to the total number of shares authorized under the 2012 Plan. Warrants for Board members vest immediately and warrants issued to employees vest annually over either a two or three-year period after the grant date.

As of March 31, 2018, 27,218 shares of common stock were available for future grants under the 2012 Plan.

All Options and Warrants

On November 30, 2017, the Board of Directors unanimously approved the adjustment of the exercise price of 605,678 unexercised warrants, with original exercise prices ranging from \$1.81 to \$19.46, issued under the 2012 Plan to \$1.24, resulting in incremental stock-based compensation of \$149,088, which was expensed in the six-month period ending March 31, 2018.

On January 26, 2017, the Board of Directors unanimously approved the adjustment of the exercise price of 65,617 unexercised warrants, with original exercise prices ranging from \$1.43 to \$7.20, issued under the 2012 Plan to \$1.15 and held by a member of the Company's Board of Directors whose unexercised warrants were not repriced along with those that were adjusted on November 30, 2017, resulting in incremental stock-based compensation of \$12,530, which was expensed in the three-month period ending March 31, 2018.

The fair value of each stock option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model. During the six months ended March 31, 2018 and 2017, the Company granted 30,797 and 125,073 options and warrants to purchase shares of common stock under the 2012 Plan. The warrants for Board members vest immediately and expire five years from grant date and warrants or options issued to employees vest annually over either a two to three-year period and expire five years after the final vesting date of the grant. The Company recorded expense of \$195,760 and \$139,092 for the six months ended March 31, 2018 and 2017, respectively, related to the issuance and vesting of outstanding stock options and warrants.

The option and warrant grants for three months ended March 31, 2018 were valued using the Black-Scholes model with the following weighted-average assumptions:

	Six Months Ended March 31	
	2018	2017
Expected stock price volatility	102%	119%
Risk-free interest rate	2.09%	0.60%
Expected life of options/warrants	5 Years	2 Years

The expected life of stock options (warrants) represents the period of time that the stock options or warrants are expected to be outstanding based on the simplified method allowed under GAAP. The expected volatility is based on the historical price volatility of the Company's common stock. The risk-free interest rate represents the U.S. Treasury bill rate for the expected life of the related stock options (warrants). The dividend yield represents the Company's anticipated cash dividends over the expected life of the stock options (warrants).

A summary of stock option (warrant) activity for the six months ended March 31, 2018 is presented below:

	Shares Under Option (Warrant)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value
Outstanding as of September 30, 2017	600,842	\$ 8.51	4.90 years	\$ -
Granted	30,797	\$ 4.87		
Expired/Cancelled	(1,172)	\$ (19.29)		
Exercised	-	\$ -		
Outstanding as of March 31, 2018	630,467	\$ 1.78	4.38 years	\$ -
Exercisable as of March 31, 2018	573,800	\$ 1.84	4.43 years	\$ -

The intrinsic value of options and warrants outstanding and exercisable is based on the Company's share price of \$1.02 at March 31, 2018.

(20) INCOME TAXES

The Company recognizes deferred income tax assets or liabilities for the expected future tax consequences of events that have been recognized in the financial statements or income tax returns. Deferred income tax assets or liabilities are determined based upon the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates expected to apply when the differences are expected to be settled or realized. Deferred income tax assets are reviewed periodically for recoverability and valuation allowances are provided as necessary. Interest and penalties related to income tax liabilities, when incurred, are classified in interest expense and income tax provision, respectively.

For the six months ended March 31, 2018 and 2017, the Company incurred a net loss for income tax purposes of \$2,779,076 and \$4,199,256, respectively. The amount and ultimate realization of the benefits from the net operating losses is dependent, in part, upon the tax laws in effect, the Company's future earnings, and other future events, the effects of which cannot be determined. The Company has established a valuation allowance for all deferred income tax assets not offset by deferred income tax liabilities due to the uncertainty of their realization. Accordingly, there is no benefit for income taxes in the accompanying statements of operations.

In computing income tax, we recognize an income tax provision in tax jurisdictions in which we have pre-tax income for the period and are expecting to generate pre-tax book income during the fiscal year.

(21) COMMITMENTS AND CONTINGENCIES

Legal Matters

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. On May 2, 2016, the Court resolved this case in favor of the Company by granting the Company's motion for Summary Judgment. The Plaintiffs filed a Notice of Appeal on June 1, 2016 challenging the Court's ruling on the motion for Summary Judgment. Plaintiff's appeal succeeded and will result in a trial occurring within the next four to eight months. We intend to defend the case vigorously.

Boggs et al. v. Judicial Electronic Monitoring, SecureAlert, Inc. et al. On December 3, 2015, Candace Boggs et al. filed a complaint in the State Court of Dougherty County, Georgia, alleging breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by The Company's counsel on April 15, 2017. Oral arguments took place on December 13, 2017 regarding a new statute which exempts providers of electronic pretrial release and monitoring services from civil liability for the criminal acts of the defendants it monitors. A ruling should be issued before the end of July 2018. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in the District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd ("ICS"). The Company's damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000, plus per annum interest. The Defendant's initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017. The Company's Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Depositions have taken place for both parties. The discovery period is scheduled to end in the near future, after which counsel will prepare a motion for Summary Judgment. We believe we will be successful in this action for amounts owed under the loan agreement and promissory note; however, the Company may encounter problems enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016, the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the “C&M Agreement”) by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018. The arbitrator requested legal briefings after the hearing which were submitted in March 2018. The Company awaits a decision from the arbitrator. The Company is confident it will be successful in the arbitration; however, the Company may encounter problems enforcing a successful arbitration award in the foreign jurisdiction where ICS resides.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company, in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill’s termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill’s employment with the Company was terminated effective September 27, 2016. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018. The court held an oral hearing on the Company’s motion for Summary Judgment on April 25, 2018. A ruling should be made within 30 days from the hearing. We intend to defend the case vigorously and believe the allegations and claims are without merit.

Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc. On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleges damages of at least \$250,000. The Company filed a motion for Summary Judgment on January 24, 2018. The Plaintiff was granted additional time to conduct discovery. We believe the allegations and claims are unfounded and without merit. We will defend the case vigorously and believe the probability of incurring a material loss to be remote.

SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior). On March 24, 2017, SecureAlert Inc. filed a complaint before the Federal Administrative Tribunal, asserting the failure by Defendants to pay claimant amounts agreed to, and due under, the Pluri Annual Contract for the Rendering of Monitoring Services of Internees, through Electric Bracelets, in the Islas Marias Penitentiary Complex dated July 15, 2011, entered into by and between the Organo Administrativo Desconcentrado Prevencion y Readaptacion Social of the then Public Security Department, and presently, an agency of the National Security Commission of the Department of the Interior, and SecureAlert, Inc., presently Track Group, Inc. The Company’s claim amount is upwards of \$6.0 million. On March 28, 2017, the Federal Administrative Tribunal rejected our claim, based on its determination that this case should be resolved by a Civil Court and not by the Federal Administrative Tribunal. For that reason, on April 25, 2017, the Company filed an appeal before the Collegiate Tribunals against the decision of the Federal Administrative Tribunal. The Tribunal ruled the claims should be resolved in the Civil Court. Following that ruling the Supreme Court took action to resolve the conflicting precedent regarding the jurisdiction of such claims and determined that such claims will be resolved by the Federal Administrative Tribunal. Counsel is studying the case to determine where the claim should be resolved.

Inversiones Tecnologicas SpA v. Track Group Chile SpA. On October 10, 2014, Inversiones Tecnologicas SpA (a.k.a. Position) filed a complaint before the Civil Court of Santiago, in order to collect \$1.0 million of fees for alleged services rendered with occasion of the public tender for the adjudication of the contract ID 634-66-LP13 labeled “Telematics Surveillance of Convicts.” On April 13, 2017, the Court issued its decision, rejecting the Plaintiff’s claim, under the consideration that insufficient evidence of a service agreement between Track Group Chile SpA (formerly Secure Alert Chile SpA) and Inversiones Tecnologicas SpA, was submitted to the Court. Moreover, the fact that Secure Alert Chile SpA was incorporated after the facts on which the lawsuit is based, led to the complete dismissal of the claim. Position filed an appeal on May 4, 2017. A hearing on the Appeal is forthcoming. The Company expects the court to make a decision within three months of the hearing date. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al. On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence. Plaintiff is requesting damages of no less than \$2.0 million. The Company's Answer and Appearance were filed August 13, 2017. The discovery period will tentatively end June 2018. Once discovery has ended the Company will file a dispositive motion.

(22) SUBSEQUENT EVENTS

Issuance of Shares. On April 13, 2018 and May 1, 2018, the Company issued 939,217 shares of common stock for services rendered to the Company. Of these shares, 266,358 were issued to pay Board of Director fees valued at \$364,722, and 672,859 shares were issued for services rendered by employees valued at \$940,141. All earned and vested awards were previously expensed.

Extension of Facility Agreement Maturity Date. On April 26, 2018, the Noteholders approved the extension of the Facility Agreement from July 31, 2018 to April 1, 2019, subject to the satisfaction of certain conditions, which are currently under discussion by the Company and Conrent. See Note 16.

In accordance with the Subsequent Events Topic of the FASB ASC 855, we have evaluated subsequent events, through the filing date and noted that, other than as disclosed above, no additional subsequent events have occurred that are reasonably likely to impact the financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

This Report contains information that constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Generally, the statements contained in this Quarterly Report on Form 10-Q that are not purely historical can be considered to be "forward-looking statements." These statements represent our expectations, hopes, beliefs, anticipations, commitments, intentions, and strategies regarding the future. They may be identified by the use of words or phrases such as "believes," "expects," "intends," "anticipates," "should," "plans," "estimates," "projects," "potential," and "will," among others. Forward-looking statements include, but are not limited to, statements contained in Management's Discussion and Analysis of Financial Condition and Results of Operations regarding our financial performance, revenue, and expense levels in the future and the sufficiency of our existing assets to fund future operations and capital spending needs. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, forward-looking statements are subject to certain risks and uncertainties that could cause actual results to differ materially from our historical experience and our present expectations or projections. These risks and uncertainties include, but are not limited to, those described in "Risk Factors" in our most recent Annual Report on Form 10-K, and those described from time to time in our reports filed with the SEC.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto that are contained in this Report, as well as Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K, for the fiscal year ended September 30, 2017, and Current Reports on Form 8-K that have been filed with the SEC through the date of this Report. Except as otherwise indicated, as used in this Report, the terms "the Company," "Track Group," "we," "our," "us," refer to Track Group, Inc., a Delaware corporation.

General

Our core business is based on the manufacture and leasing of patented tracking and monitoring solutions to federal, state and local law enforcement agencies, both in the U.S. and abroad, for the electronic monitoring of offenders and offering unique data analytics services on a platform-as-a-service ("PaaS") business model. Currently, we deploy offender-based management services that combine patented GPS tracking technologies, fulltime 24/7/365 global monitoring capabilities, case management, and proprietary data analytics. We offer customizable tracking solutions that leverage real-time tracking data, best practices monitoring, and analytics capabilities to create complete, end-to-end tracking solutions.

Our devices consist principally of the ReliAlert™ product line, which is supplemented by the Shadow product line. These devices are generally leased on a daily rate basis and may be combined with our monitoring center services, proprietary software and data analytics subscription to provide an end-to-end PaaS.

ReliAlert™ and Shadow. Our tracking devices utilize patented technology and are securely attached around an offender's ankle with a tamper resistant strap that cannot be adjusted or removed without detection, unless by a supervising officer, and which is activated through services provided by our monitoring centers. The ReliAlert™ and Shadow units are intelligent devices with integrated computer circuitry, utilizing both GPS and RF, and constructed from case-hardened plastics designed to promptly notify the intervention centers of any attempt made to breach applicable protocols, or to remove or otherwise tamper with the device or optical strap housing. The ReliAlert™ platform also incorporates voice communication technology that provides officers with 24/7/365 voice communication with the offenders. Both devices are FCC, CE and PTCRB certified and protected by numerous patents and trademarks.

Monitoring Center Services. Our monitoring center facilities provide live 24/7/365 monitoring of all alarms generated from our devices, as well as customer and technical support. Our monitoring center operators play a vital role, and as such, we staff our centers with highly-trained, bi-lingual individuals. These operators act as an extension of agency resources receiving alarms, communicating and intervening with offenders regarding violations, and interacting with supervision staff, all pursuant to agency-established protocols. The facilities have redundant power source, battery back-up and triple redundancy in voice, data, and IP. The Company has established monitoring centers in the U.S. and Chile. In addition, the Company has assisted in the establishment of monitoring centers for customers and local partners in other global locations

Data Analytics Services. Our TrackerPAL™ software, TrackerPAL™ Mobile, combined with our Data Analytic analysis tools, provide an integrated platform allowing case managers and law enforcement officers quick access views of an offender's travel behavior, mapping, and inference on patterns. Our advanced data analytics service offers a highly complex predictive reporting mechanism that combines modern statistical methods, developed using computer science and used by intelligence agencies that separate noteworthy events from normal events, rank offender cases according to their need for supervision, and relate decision-relevant metrics to benchmarks in real-time.

Business Strategy

Our global growth strategy is to continue to expand service offerings on a subscription basis that empower professionals in security, law enforcement, corrections and rehabilitation organizations worldwide with a single-sourced, real-time, end-to-end offender management solution that integrates reliable intervention technologies to support re-socialization, monitoring, and predictive analytics for offenders. In selective circumstances, we will also assist agencies by operating offender pay programs. To accomplish these objectives, we have and will continue to innovate and grow our portfolio of proprietary and non-proprietary real-time monitoring and intervention products and services, including smartphone applications. These products include GPS, RF, drug and alcohol testing for offenders, domestic violence applications and predictive analytics. Given the flexibility of our platform, our device technology, tracking, monitoring, and analytical capabilities, we believe that our solutions may apply to other industry verticals that require tracking, monitoring and predictive analytics such as those entities responsible for pre-trial participants or individuals on bail.

Recent Developments

Marion County Agreements

Effective January 1, 2018, the Company entered into a multi-year monitoring services agreement with Marion County Community Corrections Agency, by and through the Marion County Community Corrections Board (collectively, "*Marion County*"), pursuant to which the Company provides Marion County with GPS and alcohol monitoring equipment, certain services, and software to be used for offenders ordered into the Marion County Community Corrections program by the courts. In exchange for the products and services provided by the Company, Marion County shall make periodic payments, the sum of which shall be determined based on the duration of use of individual units of equipment.

On January 18, 2018, the Company entered into a monitoring services agreement with Gendarmeria de Chile, the Republic of Chile's uniform prison service ("*Gendarmeria*"), for services the Company began offering to Gendarmeria in October 2017. The Company provides Gendarmeria with GPS monitoring devices, certain services, and software to be used for offenders ordered into a corrections program by the Chilean courts. In exchange for the products and services provided by the Company, Gendarmeria shall make monthly payments, the sum of which shall be determined based on installation fees and the duration of use of individual units of equipment.

Critical Accounting Policies

From time to time, management reviews and evaluates certain accounting policies that are considered to be significant in determining our results of operations and financial position.

A description of the Company's critical accounting policies that affect the preparation of the Company's financial statements is set forth in the Company's Annual Report on Form 10-K for the year ended September 30, 2017, filed with the SEC on December 19, 2017. During the three months ended March 31, 2018 there have been no material changes to the Company's critical accounting policies.

The preparation of financial statements requires management to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expense. By their nature, these judgments are subject to an inherent degree of uncertainty. We assess the reasonableness of our estimates, including those related to bad debts, inventories, estimated useful lives, intangible assets, warranty obligations, product liability, revenue, legal matters and income taxes. We base our estimates on historical experience as well as available current information on a regular basis. Management uses this information to form the basis for making judgments about the carrying value of assets and liabilities. Actual results may differ from these estimates under different assumptions or conditions.

Results of Operations

Three Months Ended March 31, 2018, Compared to Three Months Ended March 31, 2017

Revenue

For the three months ended March 31, 2018, the Company recognized revenue from operations of \$7,316,176 compared to \$7,220,043 for the three months ended March 31, 2017, an increase of \$96,133 or approximately 1%. The increase in revenue was principally the result of (i) growth of offender monitoring in Chile, and (ii) an increase in total growth of our North American monitoring operations driven by clients in Indiana and Virginia, offset by the loss of small domestic customers.

Other revenue for the three months ended March 31, 2018 decreased to \$153,971 from \$233,431 in the same period in 2017 largely due to lower sales of consumable items and lower licensing revenue. We will continue to focus on recurring subscription based opportunities as opposed to equipment sales.

Cost of Revenue

During the three months ended March 31, 2018, cost of revenue totaled \$3,295,508 compared to cost of revenue during the three months ended March 31, 2017 of \$3,169,879, an increase of \$125,629 or approximately 4%. The increase in cost of revenue was largely the result of increases in device costs of \$111,364, higher server costs of \$61,757, and higher communication costs of \$76,830, partially offset by lower monitoring costs of \$103,883.

Depreciation and amortization included in cost of revenue for the three months ended March 31, 2018 and 2017 totaled \$467,666 and \$515,574, respectively. These costs represent the depreciation of ReliAlert™ and other monitoring devices, as well as the amortization of monitoring software and certain royalty agreements. We believe the amortization periods are appropriate due to changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses the useful life of the devices for appropriateness. Amortization of a patent related to GPS and satellite tracking is also included in cost of sales.

Gross Profit and Margin

During the three months ended March 31, 2018, gross profit totaled \$4,020,668, representing a decrease of \$29,496 or less than 1% compared to the same period last year and resulting in a gross margin of approximately 55% compared to \$4,050,164 or a gross margin of approximately 56% during the three months ended March 31, 2017. The decrease in gross margin is largely due to the higher costs of revenue mentioned above, as well as incentives given to certain customers for assistance with the evaluation of our new software platform.

General and Administrative Expense

During the three months ended March 31, 2018, general and administrative expense totaled \$3,495,343 compared to \$2,355,156 for the three months ended March 31, 2017. The increase of \$1,140,187 or 48% in general and administrative costs resulted largely from an increase in non-cash stock-based compensation expense of \$884,840, higher legal and professional fees of \$170,672, higher wages and benefit costs of \$146,318 and higher outside service costs of \$161,602, partially offset by lower bad debt expense of \$206,581.

Loss on Sale of Asset

During the three months ended March 31, 2017, we incurred a loss on the sale of non-core assets of \$766,031 for which the Company received cash of \$860,000.

Restructuring Costs

During the three months ended March 31, 2017, the Company recorded \$4,070 of costs related to the relocation of our headquarters from Salt Lake City, Utah to our existing Chicagoland office. These costs include the transfer of our own monitoring center activities to a highly-specialized third party, severance pay related to a reduction of approximately 65 monitoring center employees, as well as other support employees and moving costs. All costs related to the relocation were paid in the fiscal year ended September 30, 2017.

Selling and Marketing Expense

During the three months ended March 31, 2018, selling and marketing expense decreased to \$518,993 compared to \$624,210 for the three months ended March 31, 2017. The reduction in expense of \$105,217, or approximately 17% is principally the result of lower wages and benefits of \$50,795, lower professional fees of \$32,749 and lower outside services of \$9,118.

Research and Development Expense

During the three months ended March 31, 2018, research and development expense totaled \$182,808 compared to \$679,238 for the three months ended March 31, 2017, a decrease of \$496,430 or approximately 73%. The decrease resulted largely from lower wages and benefits of \$258,487 and lower outside service costs of \$243,419. In addition, we are significantly enhancing our technology platform to improve the efficiency of our software, firmware, user interface, and automation. As a result of these improvements, \$247,952 was capitalized as developed technology during the three months ended March 31, 2018 and \$458,275 was capitalized in the three months ended March 31, 2017. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology.

Depreciation and Amortization Expense

During the three months ended March 31, 2018, depreciation and amortization expense totaled \$539,537 compared to \$633,273 for the three months ended March 31, 2017, a decrease of \$93,736 or approximately 15% largely the result of certain property and equipment assets becoming fully depreciated.

Total Operating Expense

During the three months ended March 31, 2018, total operating expense decreased to \$4,736,680 compared to \$5,061,978 for the three months ended March 31, 2017, a decrease of \$325,298 or approximately 6%. The decrease was largely due to a loss on sale of an asset which occurred in 2017 of \$766,031, lower selling and marketing expense of \$105,217, lower research and development expense of \$496,430 and lower depreciation and amortization expense of \$93,736. These costs were partially offset by higher general and administrative expense of \$1,140,187, largely made up of non-cash stock-based compensation.

Other Income (Expense)

For the three months ended March 31, 2018, other income (expense) totaled expense of \$1,020,472 compared to expense of \$564,584 for the three months ended March 31, 2017, an increase in net expense of \$455,888 or approximately 81%. The increase in other income (expense) is due to income related to a stock payable adjustment with a related party in 2017 of \$213,940 and negative currency exchange rate movements of \$231,383, largely due to movement in the Canadian dollar.

Net Loss Attributable to Common Shareholders

The Company had net loss attributable to common shareholders of \$1,736,485 for the three months ended March 31, 2018, compared to a net loss attributable to common shareholders of \$1,585,497 for the three months ended March 31, 2017, an increase of \$150,988 or 10%. This increase in net loss is largely due to an increase in stock-based compensation, higher legal and professional fees, higher outside service costs, higher wages and benefits and higher other expense, net. These amounts were offset by absence of restructuring costs, lower selling and marketing expense, lower research and development costs and lower depreciation and amortization.

Six Months Ended March 31, 2018, Compared to Six Months Ended March 31, 2017

Revenue

For the six months ended March 31, 2018, the Company recognized revenue from operations of \$14,806,870, compared to \$14,891,533 for the six months ended March 31, 2017, a decrease of \$84,663 or less than 1%. Of this revenue, \$14,513,010 and \$14,419,889, respectively, were from monitoring and other related services, an increase of \$93,121 or 1%. The decrease in revenue was principally the result of (i) a loss of a Caribbean customer whose contract ended in November 2016 and (ii) lower sales of consumable and non-monitoring revenue items, partially offset by (iii) growth of offender monitoring in Chile and (iv) an increase in total growth of our North American monitoring operations driven by clients in Indiana and Virginia.

Other revenue for the three months ended March 31, 2018 decreased to \$293,860 from \$471,644 in the same period in 2017 largely due to lower sales of consumable items and other non-monitoring revenue items. We are continuing to focus on recurring subscription based opportunities and not equipment sales.

Cost of Revenue

During the six months ended March 31, 2018, cost of revenue totaled \$6,314,657 compared to cost of revenue during the six months ended March 31, 2017 of \$7,297,435, a decrease of \$982,778 or approximately 13%. The decrease in cost of revenue was largely the result of lower monitoring costs of \$356,004, lower communication costs of \$209,496, lower repair and maintenance costs by \$325,943, lower customs expense of \$201,062 and other incremental revenue related costs, partially offset by higher server costs of \$128,376 and higher costs of lost and stolen devices of \$88,325. During the six-month period ended March 31, 2017, we incurred one-time costs of \$371,144, which is reflected in monitoring, products and other related services in the condensed consolidated income statement, that did not reoccur in the six months ended March 31, 2018. Excluding these one-time costs, cost of revenue for the six-months ended March 31, 2018 would have decreased \$611,634, or approximately 9%, compared to the same period in 2017.

Depreciation and amortization included in cost of revenue for the six months ended March 31, 2018 and 2017 totaled \$944,808 and \$961,067, respectively. This \$16,259 or approximately 2% decrease in costs represents a drop in the depreciation of ReliAlert™ and other monitoring devices. Devices are depreciated over a one to five year useful life. Royalty agreements are being amortized over a ten year useful life. The Company believes these lives are appropriate due to changes in electronic monitoring technology and the corresponding potential for obsolescence. Management periodically assesses estimates for useful lives of assets for appropriateness.

Gross Profit and Margin

During the six months ended March 31, 2018, gross profit totaled \$8,492,213, resulting in a gross margin of approximately 57%, compared to \$7,594,098, or a gross margin of approximately 51% during the six months ended March 31, 2017. The increase in absolute gross profit of \$898,115 or approximately 12% is due to lower costs of revenue. The increase in gross margin is due to the decrease in certain aspects of cost of revenue, including monitoring activity, communication costs, repairs and maintenance and the absence of one-time costs of \$371,144 incurred in the prior year mentioned above.

General and Administrative Expense

During the six months ended March 31, 2018, general and administrative expense totaled \$7,153,081 compared to \$5,530,210 for the six months ended March 31, 2017. The increase of \$1,622,871 or approximately 29% in general and administrative costs resulted largely from higher non-cash stock-based compensation of \$1,447,056, legal and professional fees of \$318,576, outside consulting of \$133,114 and higher wages and benefits expense of \$312,592, partially offset by a decrease in bad debt expense of \$379,223, lower training and recruiting of \$78,270, lower rent expense of \$67,737 and lower repair and maintenance expense of \$66,474.

Loss on Sale of Asset

During the six months ended March 31, 2017, we incurred a loss on the sale of non-core assets of \$766,031 for which the Company received cash of \$860,000.

Restructuring Costs

During the six months ended March 31, 2017, we recorded \$570,400 of costs related to the relocation of our headquarters from Salt Lake City, Utah to our existing Chicagoland office. These costs include the transfer of our own monitoring center activities to a highly-specialized third party, severance pay related to a reduction of approximately 65 monitoring center employees, as well as other support employees and moving costs. All costs related to the relocation were paid in the fiscal year ended September 30, 2017.

Selling and Marketing Expense

During the six months ended March 31, 2018, selling and marketing expense totaled \$928,730 compared to \$1,213,978 for the six months ended March 31, 2017. The \$285,248, or approximately 23% decrease resulted largely from lower outside service expense of \$118,410, lower wages and benefits of \$83,197, lower legal and professional fees of \$32,749 and lower travel expense of \$31,341.

Research and Development Expense

During the six months ended March 31, 2018, research and development expense totaled \$346,754 compared to research and development expense for the six months ended March 31, 2017 totaling \$1,167,416, a decrease of \$820,662 or approximately 70%. The decrease is largely due lower wages and benefits of \$461,683 and lower outside services of \$356,215 as the Company begins to complete its new technology platform. The Company is significantly enhancing its technology platform to improve the efficiency of its software, firmware, user interface, and automation. As a result of these improvements, \$502,851 was capitalized as developed technology during the six months ended March 31, 2018 and \$1,028,368 was capitalized during the six months ended March 31, 2017. A portion of this expense would have been recognized as research and development expense, absent the significant enhancements to the technology.

Depreciation and Amortization Expense

During the six months ended March 31, 2018, depreciation and amortization expense totaled \$1,104,277 compared to \$1,208,384 for the six months ended March 31, 2017. The \$104,107, or approximately 9% decrease was largely the result of certain property and equipment assets becoming fully depreciated.

Total Operating Expense

During the six months ended March 31, 2018, total operating expense decreased to \$9,532,842 compared to \$10,456,419 for the six months ended March 31, 2017, a decrease of \$923,577 or approximately 9%. The decrease was largely due to a loss on sale of an asset of \$766,031 and restructuring costs of \$570,400, which both occurred in 2017, and lower selling and marketing expense of \$285,248, lower research and development expense of \$820,882 and lower depreciation and amortization expense of \$104,107. These costs were partially offset by higher general and administrative expense of \$1,622,871, largely made up of non-cash stock-based compensation.

Other Income (Expense)

For the six months ended March 31, 2018, other income (expense) totaled expense of \$1,738,447 compared to expense of \$1,327,836 for the six months ended March 31, 2017. The increase of \$410,611 in net other expense resulted primarily from income related to a stock payable adjustment with related party in 2017 of \$213,940 and negative currency exchange rate movements of \$170,013.

Net Loss Attributable to Common Shareholders

The Company had a net loss from continuing operations for the six months ended March 31, 2018 totaling \$2,779,076 compared to a net loss of \$4,199,256 for the six months ended March 31, 2017 representing, a decrease of \$1,420,180 or approximately 34%. This decrease in net loss is largely due to lower cost of revenue, lower research and development costs, lower selling and marketing expenses, the absence of restructuring costs and loss on sale of assets which occurred in 2017, offset by higher general and administrative costs, largely stock-based compensation.

Liquidity and Capital Resources

Prior to the fiscal year ended September 30, 2017, the Company supplemented cash flows to finance the business from borrowings under a credit facility, a revolving line of credit from one of our shareholders, receipt of certain disgorgement funds, and from the sale and issuance of debt securities. As of March 31, 2018, excluding interest, \$3.4 million was owed to Sapinda under the Sapinda Loan Agreement and \$30.4 million was owed to Conrent under the Facility. No borrowings or sales of equity securities occurred during the six months ended March 31, 2018 or in the prior fiscal year.

On February 26, 2018, the Company proposed that the maturity date of the Facility Agreement be extended from July 31, 2018 to April 1, 2019. On April 26, 2018, the Noteholders approved the extension of the Facility Agreement from July 31, 2018 to April 1, 2019, subject to the satisfaction of certain conditions, which are currently under discussion by the Company and Conrent, and subject to the execution of an amendment to the Facility Agreement by both Conrent and the Company. Although no assurances can be given, management anticipates that the parties will execute such amendment prior to the maturity date of the Facility Agreement. See Footnote 16 to the Condensed Consolidated Financial Statements.

Net Cash Flows from Operating Activities.

During the six months ended March 31, 2018, we incurred a net loss of \$2,779,076 and we had cash flows from operating activities of \$1,773,944, compared to a net loss of \$4,199,256 and cash flows from operating activities of \$1,996,957 for the six months ended March 31, 2017. The decrease of cash from operations compared to the prior year period was largely the result of an increase in prepaid expenses, largely for an international performance bond and prepaid taxes and a decrease in accounts payable, partially offset by improved operating results.

Net Cash Flows from Investing Activities.

The Company used \$1,121,825 of cash for investing activities during the six months ended March 31, 2018, compared to \$1,513,322 of cash used during the six months ended March 31, 2017. Cash used for investing activities was used for significant enhancements of our software platform and used for purchases of monitoring and other equipment to meet demand during the six months ended March 31, 2018.

Net Cash Flows from Financing Activities.

The Company used \$36,632 of cash for financing activities during the six months ended March 31, 2018, compared to \$34,779 of cash used in financing activities during the six months ended March 31, 2017.

Liquidity, Working Capital and Management's Plan

As of March 31, 2018, we had unrestricted cash of \$2,661,829, compared to unrestricted cash of \$2,027,321 as of September 30, 2017. As of March 31, 2018, we had a working capital deficit of \$28,976,055, compared to a working capital deficit of \$30,874,107 as of September 30, 2017. This decrease in working capital deficit is principally due to a transfer of a short-term bond from a long-term asset of \$2,944,631, and cash provided by operations, partially offset by a decrease in cash due to additional capitalized software of \$502,851, purchases of monitoring equipment of \$494,254 and purchases of property and equipment of \$124,720.

On March 13, 2017, the Company successfully extended the Sapinda Loan Agreement from September 30, 2017 to September 30, 2020. In addition, on April 26, 2018, the Noteholders approved the extension of the Facility Agreement from July 31, 2018 and April 1, 2019, subject to the satisfaction of certain conditions, which are currently under discussion by the Company and Conrent, and subject to the execution of an amendment to the Facility Agreement by both Conrent and the Company. Although no assurances can be given, management anticipates that the parties will execute such amendment prior to the maturity date of the Facility Agreement. See Footnote 16 to the Condensed Consolidated Financial Statements.

The Company incurred a net loss of \$2,779,076 and \$4,199,256 for the six months ended March 31, 2018 and 2017, respectively. The Company may continue to incur losses until it is able to achieve a level of revenue adequate to support its cost structure. In addition, assuming the Company will successfully extend the maturity of the Facility Agreement discussed in Footnote 16 to the Condensed Consolidated Financial Statements, management has evaluated the significance of all conditions and determined that it will have adequate cash flow from operations to meet its operating obligations and provide for its working capital requirements for the next twelve months. However, in the event that we are unable to execute an amendment to the Facility Agreement resulting in an extension of the maturity date to April 2019, our available cash resources together with cash flow from operations will be inadequate to satisfy our working capital requirements. Management will therefore seek additional sources of capital, and may consider strategic or other transactions to continue as a going concern. No assurances can be given that we will be successful in either extending or restructuring our debt, raising additional debt or equity capital, or consummating a strategic or other transaction.

Inflation

We do not believe that inflation has had a material impact on our historical operations or profitability.

Off-Balance Sheet Financial Arrangements

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation that provides financing, liquidity, market risk, or credit risk support to the Company, except as described below.

	Payments due in less than 1 year	Payments due in 1 – 3 years	Payments due in 3 – 5 years	Total
Operating leases	\$ 302,498	\$ 417,335	\$ 36,754	\$ 756,587

As of March 31, 2018, the Company's total future minimum lease payments under non-cancelable operating leases were \$756,587. The Company's facility leases typically have original terms not exceeding five years and generally contain multi-year renewal options.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

The Company footprint extends to a few countries outside the United States, and we intend to continue to examine international opportunities. As a result, our revenue and results of operations are affected by fluctuations in currency exchange rates, interest rates, transfer pricing changes, taxes and other uncertainties inherent in doing business in more than one currency. In addition, our operations are exposed to risks that are associated with changes in social, political, and economic conditions in the foreign countries in which we operate, including changes in the laws and policies that govern foreign investment, as well as, to a lesser extent, changes in United States laws and regulations relating to foreign trade and investment.

Foreign Currency Risks

We had \$5,263,868 and \$5,124,913 in revenue from sources outside of the United States for the six months ended March 31, 2018 and 2017, respectively. We made and received payments in a foreign currency during the periods indicated, which resulted in a foreign exchange of \$276,120 and \$106,107 in the six months ended March 31, 2018 and 2017, respectively. Changes in currency exchange rates affect the relative prices at which we sell our products and purchase goods and services. Given the uncertainty of exchange rate fluctuations, we cannot estimate the effect of these fluctuations on our future business, product pricing, results of operations, or financial condition. We do not use foreign currency exchange contracts or derivative financial instruments for hedging or speculative purposes. To the extent foreign sales become a more significant part of our business in the future, we may seek to implement strategies which make use of these or other instruments in order to minimize the effects of foreign currency exchange on our business.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) to ensure that material information relating to the Company is made known to the officers who certify our financial reports and to other members of senior management and the Board of Directors. These disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

Under the supervision and with the participation of management, including the principal executive officer and principal financial officer, an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of March 31, 2018 was completed pursuant to Rules 13a-15(b) and 15d-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective and designed to provide reasonable assurance that the information required to be disclosed is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms as of March 31, 2018.

Changes in Internal Controls

We maintain a system of internal control over financial reporting that is designed to provide reasonable assurance that our books and records accurately reflect our transactions and that our established policies and procedures are followed. There was no change in our internal control over financial reporting during our quarter ended March 31, 2018 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We are, from time to time, involved in various legal proceedings incidental to the conduct of our business. Historically, the outcome of all such legal proceedings has not, in the aggregate, had a material adverse effect on our business, financial condition, results of operations or liquidity. Other than as set forth below, there are no additional pending or threatened legal proceedings at this time.

Lazar Leybovich et al. v. SecureAlert, Inc. On March 29, 2012, Lazar Leybovich, Dovie Leybovich and Ben Leybovich filed a complaint in the 11th Circuit Court in and for Miami-Dade County, Florida alleging breach of contract with regard to certain Stock Redemption Agreements. On May 2, 2016, the Court resolved this case in favor of the Company by granting the Company's motion for Summary Judgment. The Plaintiffs filed a Notice of Appeal on June 1, 2016 challenging the Court's ruling on the motion for Summary Judgment. Plaintiff's appeal succeeded and will result in a trial occurring within the next four to eight months. We intend to defend the case vigorously.

Boggs et al. v. Judicial Electronic Monitoring, SecureAlert, Inc. et al. On December 3, 2015, Candace Boggs et al. filed a complaint in the State Court of Dougherty County, Georgia, alleging breach of contract and negligence in monitoring of certain offenders in Dougherty County, Georgia, as well as a request for punitive damages. Plaintiffs withdrew their complaint in February 2016, but refiled the complaint on October 12, 2016. The Company's motion for Summary Judgment was denied on February 27, 2017 and a Notice of Appeal was filed by The Company's counsel on April 15, 2017. Oral arguments took place on December 13, 2017 regarding a new statute which exempts providers of electronic pretrial release and monitoring services from civil liability for the criminal acts of the defendants it monitors. A ruling should be issued before the end of July 2018. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Track Group, Inc. v. I.C.S. of the Bahamas Co. Ltd. On May 18, 2016, the Company filed a complaint in the District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, under the terms of a loan agreement and promissory note between the Company and I.C.S. of the Bahamas Co. Ltd (“ICS”). The Company’s damages of unpaid principal and interest on the Promissory Note are in the amount of \$230,000, plus per annum interest. The Defendant’s initial Counterclaims were dismissed; however, the Court granted the Defendant leave to amend. The Amended Counter Claims were filed on June 23, 2017. The Company’s Motion to Dismiss the Amended Counterclaims was denied on September 19, 2017. The Company filed an Answer to the Amended Counterclaims on October 3, 2017. Depositions have taken place for both parties. The discovery period is scheduled to end in the near future, after which counsel will prepare a motion for Summary Judgment. We believe we will be successful in this action for amounts owed under the loan agreement and promissory note; however, the Company may encounter problems enforcing a favorable judgment in the foreign jurisdiction where ICS resides.

Track Group Inc. v. I.C.S. of the Bahamas Co. Ltd. On September 26, 2016, the Company filed a Notice of Arbitration with the International Centre for Dispute Resolution, alleging breach of contract by ICS. Under the terms of the Commercial and Monitoring Representative Agreement dated November 30, 2010 (the “C&M Agreement”) by and between the Company and ICS, any dispute must be resolved by binding arbitration. The Company asserts that ICS has failed to pay the Company fees owed to it under the C&M Agreement. The amount owed to the Company is approximately \$1.0 million. Depositions were completed in August of 2017. The arbitration hearing took place on January 31, 2018. The arbitrator requested legal briefings after the hearing which were submitted in March 2018. The Company awaits a decision from the arbitrator. The Company is confident it will be successful in the arbitration; however, the Company may encounter problems enforcing a successful arbitration award in the foreign jurisdiction where ICS resides.

John Merrill v. Track Group, Inc. and Guy Dubois. On November 30, 2016, the Company was served with a complaint filed by John Merrill, the former Chief Financial Officer of the Company, in District Court of the Third Judicial District in Salt Lake County, Utah alleging breach of contract, among other causes of action, related to Mr. Merrill’s termination of employment. Mr. Merrill is seeking not less than \$590,577 plus interest, attorney fees and costs. Mr. Merrill’s employment with the Company was terminated effective September 27, 2016. The Company filed an Answer with Counter Claims on December 21, 2016. The Company filed a motion for Summary Judgment on January 16, 2018. The court held an oral hearing on the Company’s motion for Summary Judgment on April 25, 2018. A ruling should be made within 30 days from the hearing. We intend to defend the case vigorously and believe the allegations and claims are without merit.

Michael Anthony Johnson v. Community Corrections of Marion County and Track Group, Inc. On February 28, 2017, the Company was notified that Mr. Johnson, the Plaintiff, had filed a *pro se* complaint in the United States District Court for the Southern District of Indiana, asserting violations of his rights under 28 U.S.C. Sec.1331. Mr. Johnson alleges damages of at least \$250,000. The Company filed a motion for Summary Judgment on January 24, 2018. The Plaintiff was granted additional time to conduct discovery. We believe the allegations and claims are unfounded and without merit. We will defend the case vigorously and believe the probability of incurring a material loss to be remote.

SecureAlert, Inc. v. Federal Government of Mexico (Department of the Interior). On March 24, 2017, SecureAlert Inc. filed a complaint before the Federal Administrative Tribunal, asserting the failure by Defendants to pay claimant amounts agreed to, and due under, the Pluri Annual Contract for the Rendering of Monitoring Services of Internees, through Electric Bracelets, in the Islas Marias Penitentiary Complex dated July 15, 2011, entered into by and between the Organo Administrativo Desconcentrado Prevencion y Readaptacion Social of the then Public Security Department, and presently, an agency of the National Security Commission of the Department of the Interior, and SecureAlert, Inc., presently Track Group, Inc. The Company’s claim amount is upwards of \$6.0 million. On March 28, 2017, the Federal Administrative Tribunal rejected our claim, based on its determination that this case should be resolved by a Civil Court and not by the Federal Administrative Tribunal. For that reason, on April 25, 2017, the Company filed an appeal before the Collegiate Tribunals against the decision of the Federal Administrative Tribunal. The Tribunal ruled the claims should be resolved in the Civil Court. Following that ruling the Supreme Court took action to resolve the conflicting precedent regarding the jurisdiction of such claims and determined that such claims will be resolved by the Federal Administrative Tribunal. Counsel is studying the case to determine where the claim should be resolved.

Inversiones Tecnologicas SpA v. Track Group Chile SpA. On October 10, 2014, Inversiones Tecnologicas SpA (a.k.a. Position) filed a complaint before the Civil Court of Santiago, in order to collect \$1.0 million of fees for alleged services rendered with occasion of the public tender for the adjudication of the contract ID 634-66-LP13 labeled “Telematics Surveillance of Convicts.” On April 13, 2017, the Court issued its decision, rejecting the Plaintiff’s claim, under the consideration that insufficient evidence of a service agreement between Track Group Chile SpA (formerly Secure Alert Chile SpA) and Inversiones Tecnologicas SpA, was submitted to the Court. Moreover, the fact that Secure Alert Chile SpA was incorporated after the facts on which the lawsuit is based, led to the complete dismissal of the claim. Position filed an appeal on May 4, 2017. A hearing on the Appeal is forthcoming. The Company expects the court to make a decision within three months of the hearing date. We believe the allegations are inaccurate and are defending the case vigorously. We believe the probability of incurring a material loss to be remote.

Pablo Gonzalez-Cruz, et al. v. Track Group-Puerto Rico, et al. On June 9, 2017, the Plaintiff, Pablo Gonzalez-Cruz, and relatives of the Plaintiff, filed a Complaint in the Court of First Instance, San Juan Superior Court, Common Wealth of Puerto Rico against the Company, and associated parties alleging the death of his daughter was a direct and immediate result of the gross negligence. Plaintiff is requesting damages of no less than \$2.0 million. The Company’s Answer and Appearance were filed August 13, 2017. The discovery period will tentatively end June 2018. Once discovery has ended the Company will file a dispositive motion.

Item 1A. Risk Factors

Our results of operations and financial condition are subject to numerous risks and uncertainties described in our Annual Report on Form 10-K for our fiscal year ended September 30, 2017, filed on December 19, 2017, including the risk that we may be unable to extend approximately \$30.4 million of debt as of March 31, 2018, which debt matures on July 31, 2018. See Note 16 to the Condensed Consolidated Financial Statements. You should carefully consider these risk factors in conjunction with the other information contained in this Quarterly Report. Should any of these risks materialize, our business, financial condition and future prospects could be negatively impacted. As of May 11, 2018, there have been no material changes to the disclosures made in the above-referenced Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

(a) Exhibits Required by Item 601 of Regulation S-K

Exhibit Number	Title of Document
10.1+	Monitoring Services Agreement, dated January 18, 2018, by and between Track Group Chile SpA and Gendarmeria de Chile (filed herewith).
31(i)	Certification of Chief Executive Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
31(ii)	Certification of Chief Financial Officer under Section 302 of Sarbanes-Oxley Act of 2002 (filed herewith).
32	Certifications under Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350) (filed herewith).
101.INS	XBRL INSTANCE DOCUMENT
101.SCH	XBRL TAXONOMY EXTENSION SCHEMA
101.CAL	XBRL TAXONOMY EXTENSION CALCULATION LINKBASE
101.DEF	XBRL TAXONOMY EXTENSION DEFINITION LINKBASE
101.LAB	XBRL TAXONOMY EXTENSION LABEL LINKBASE
101.PRE	XBRL TAXONOMY EXTENSION PRESENTATION LINKBASE

+ Confidential treatment has been requested for certain confidential portions of this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934. In accordance with Rule 24b-2, these confidential portions have been omitted from this exhibit and filed separately with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Track Group, Inc.

Date: May 11, 2018

By: /s/ Derek Cassell
Derek Cassell
Principal Executive Officer

Date: May 11, 2018

By: /s/ Peter K. Poli
Peter K. Poli, Chief Financial Officer
(Principal Accounting Officer)

CONTRACT:

"TELEMATIC MONITORING OF CONDEMNED SERVICE"

GENDARMERIE OF CHILE

WITH

"TRACK GROUP CHILE SPA"

In Santiago, Chile, October 18, 2017, appear, on the one hand, Mr. **JAIME DAVID ROJAS FLORES**, Chilean, identity card number 9.155.944-7, in his capacity of National Director of Gendarmerie of Chile, appears as accredits, Public Service under the Ministry of Justice, both domiciled at Calle Rosas No. 1264, district of Santiago, Metropolitan Region, herein after the "Service", "The Institution" or "Gendarmerie", and, on the other hand, Mr. **DIEGO PERALTA VALENZUELA**, Chilean, national identity card N ° 5.009.310-7, by profession lawyer, representing, as will be accredited, the company **TRACK GROUP CHILE SpA**, RUT N ° 76.321.923-2, legal entity of the line of services, both domiciled in Isidora Goyenechea 2800 floor 43, Las Condes, Metropolitan Region, who will henceforth be called the "**Contractor**" or "**The Company**"; those who state that they have agreed to the service provision contract that consists of the following:

FIRST: CONTRACTUAL PRECEDENTS- On November 13, 2013, a first contract of "Telematics Monitoring Condemn Service" was signed between the company SecureAlert (today Track Group Chile SpA), which was approved by Exempt Resolution No. 2445 of November 15 of the same year, contemplating a temporary extension of 41 continuous months from the date in which the administrative act that took reason of the aforementioned contract was fully processed.

On August 7th, 2014, the agreement was signed between the parties amending Convention, which excludes the benefits contained in the primitive contract, the telematic monitoring of the sentence of intensive probation. This amending agreement was approved by the resolution procedure N ° 2019 of August 12 of the same year.

On April 23, 2015, a modification of the contract was signed between the parties in accordance with which the change of the contractor's social reason was made official, modifying the name of **SECUREALERT Chile SpA to TRACK GROUP Chile SpA**. This contractual modification was approved by resolution procedure N° 866 of May 29, 2015.

On November 19, 2015, the parties signed a new amendment to the contract by which all the initial benefits contemplated by the primitive contract were reinstated, i.e. to their application to the substitute sentence such as the Partial Seclusion and Intensive Probation. This amendment was approved through resolution procedure No. 2211 of December 14, 2015.

SECOND: ADMINISTRATIVE PRECEDENTS- On October 5, 2012 is dictated the resolution procedure N° 1766 that "offers the call to public bidding and approves administrative and technical bases for the hiring of the service of telematic monitoring of condemned according to requirements indicated" Which gave cause to the tender for public proposals ID 634-66-LP13.

On January 6, 2017, and in order to issue a pronouncement regarding missive from TrackGroup Chile SpA to the Head of the Telematic Monitoring Department, the Head of the Gendarmerie Prosecutor's Office of Chile through the official letter No. 10 concluded that the circumstances of fact and law that modified the contractual execution "must be accounted for the extension of the reckon of that one".

On February 7, 2017, and through Ordinary Letter No. 72, TrackGroup Chile SpA was notified of the circumstance that the date of completion of the execution of the contract for 41 months would correspond to October 17, 2017.

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On October 17, 2017, Resolution No. 321 was issued, which "approves hiring under the modality of direct treatment of the "Telematic Monitoring Service" with Track Group Chile SpA, for the reasons and under the terms set out indicate "covered by the legal grounds that entitle them to proceed through direct treatment, established in Article 10, number 7 letter f, of the DS No. 250 of 2004, of the Ministry of Finance, which establishes the Regulation of Law No. 19.886, on Administrative Contracts of Supply and Provision of Services, rule that provides that direct contracting must proceed: "When, due to the magnitude and importance implied hiring is essential to resort to a particular provider because of the confidence and security that derive from their proven experience in the provision of the required goods or services, and provided that it is reasonably considered that there are no other suppliers that provide such security and trust".

THIRD: TECHNICAL REGULATION OF THE CURRENT CONTRACTING- In order to ensure the uninterrupted continuity of the telematic monitoring of condemned services that the Company provided until October 17, 2017, this contract will include the standards and technical specifications contained in the document called **TECHNICAL CONTRACT ANNEX THROUGH DIRECT TREATMENT OF TELEMATIC MONITORING OF CONDEMNED SERVICE**, antecedent that includes pertinent sections of the Technical Bases approved by the Resolution N ° 1766 of October 05, 2012 and that managed in its opportunity the tender for the hiring of the telematic monitoring of condemned service ID 634-66-LP13, which is known from both the parties.

FOURTH: OBJECT AND CHARACTERISTICS OF THE CONTRACTED SERVICE The company must provide to the institution the Telematic Monitoring of Condemned Service, which includes the following:

The disposition of monitoring software, and the provision, installation, replacement and removal of monitoring devices, training of Gendarmerie personnel, maintenance of the system, the Monitoring Center and the Regional Monitoring Support Center and the maintenance of their equipment, all this according to what is established in the pertinent technical annexes.

The services that are hired must faithfully comply with the requirements contained in the pertinent technical annexes.

FIFTH: CONTRACT PRICE AND METHOD OF PAYMENT OF THE HIRED BENEFIT

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This being a contract for the provision of services, in the event that the Company records unpaid balances of social security payments or contributions with its current employees or workers hired during the term of the contract, the first payment statements resulting from the contract must be allocated to the payment of those obligations, the Company must certify that all of the obligations are settled upon completion of half of the contract execution period, with a maximum of 6 months.

Gendarmerie shall require the company to proceed to such payments, having submitted the latter, in the middle of the period of execution of the contract, the receipts and forms showing the total fulfillment of the obligation or the certificate of work history and Provisions n ° 30, granted by the management of the work of an antiquity no more than 30 days since its date of issuance.

The failure to comply with these obligations will give right to gendarmerie to terminate the contract prematurely.

It is stated that it does not constitute an obligation of gendarmerie, nor does it assume responsibilities of any kind, if the number of condemned persons to whom the Telematic monitoring service is applied is not produced on the basis of the information entered in the A Technical Nexus "referential projections: Benefits Direct treatment". This without prejudice to differentiated unit prices established previously.

SIXTH: DEADLINE AND EXECUTION OF THE CONTRACT- In order to ensure the continuity of the telematic monitoring services, this contract will start its validity from the moment of its subscription and will have a duration of 365 consecutive days counted from its subscription, unless at that date Gendarmerie of Chile has not certified the reception of milestone N ° 2 established in section X of the Technical Bases "Implementation of the project" within the framework of the bidding process of the Telematic Monitoring Service for the Convicted with ID / 634-35-LR17, in which case, the validity of the contract will be extended until the certification of that milestone.

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However, the aforementioned reception of the milestone N° 2, will not be verified before the arrival of the 365 days of validity of the contractual link.

Without prejudice to the opportunity of entry into force of this contract, the payments arising from the performance of the benefits contained therein, shall be subject to the opportunity in which it is reasoned and is fully processed the administrative Act which Approves it, which will be posted on the site.

However, the extension of its validity beyond the budget year of 2018, will be subject to the existence of sufficient resources for this purpose, in the respective annual regular budget of the Institution. Therefore, the Gendarmerie of Chile is now authorized to terminate this contract, before the original deadline indicated, invoking as a basis, the lack of sufficient resources in the budget year in question. Said unilateral decision of Gendarmerie does not imply the payment of any amount for any concept other than the payment of the services provided by the Company, until the date indicated in the corresponding notification that, to that effect, practice the Service to make known the circumstance indicated.

Terms of delivery service

The company must deliver the Telematic monitoring service in operation and implemented continuously in 100% from the moment of the subscription of this contract.

It will be the obligation of the Company to make, at the request of the Gendarmerie of Chile, adjustments or improvements to the applications and systems in force on the date of signing the contract and that are destined to the control and follow-up of the substitutive sentence to the privative or restrictive ones of the freedom.

In this sense, and without the following statement being exhaustive, and in exemplary way the contractor may be required to:

- 1. Field incorporation in the systems and in the documents that these come.**
- 2. New functionalities designed to facilitate the operation of the system.**
- 3. Improvements in the reporting system.**
- 4. Incorporation of new icons colors tables diagrams and general improvements in the layout and the layers of presentation of the functionalities of the systems.**

The requirements of the Gendarmerie must be answered within 48 hours of its formulation. In the response issued by the company, it must decide on the feasibility of developing the requirement and the deadlines committed to execute them, which may not exceed 5 business days. However, in the event that the type of requirement involves a certain technical complexity duly founded, the parties may by mutual agreement agree to a term longer than indicated above.

SEVENTH: THE ESSENTIAL OBLIGATIONS OF THE CONTRACT

Monitoring system

The System must contemplate, as a minimum, the following:

- a) Be able to identify, in real time, the place where the condemned is, establishing the opportune mechanisms of warnings that allow to detect the transfer or breach of the limits established by the judicial authority.
- b) To provide, in a continuous and reliable way, precise information about the location -in coordinates, inside the chilean geography-, where the condemned is found for the case of the intensive probation, or his state (presence or absence in the domicile), for the case of partial seclusion.
- c) Have the necessary mechanisms to detect and report attempts to defraud or falsify the information previously indicated.

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- d) To warn when the condemned is close to passing an area of inclusion, or to enter an area of exclusion, fixed judicially.
- e) Immediately communicate the incidents which, in the sense indicated in previously, are produced; as well as to communicate the warnings to the competent personnel for the control of the condemned, to all the persons deemed appropriate, by any means of communication of the system.
- f) The provider system must be in a web site, allowing remote users authorized by the Gendarmerie, to access the location information of the convicted person and/or the victim.
- g) The company must deliver the network architecture of the telematic monitoring system and, in particular, detail the connectivity parameters at the network level of the different stages that make up the solution and the information security aspects, such as rules and filters Access at the level of firewalls that will protect the system from intruders and attacks. The Company must provide the necessary hardware and software to do so. In addition, it must include the necessary means for the tasks of backup and recovery of the system.
- h) The solution should allow for uninterrupted operation 24 hours a day, every day of the year. It is essential that mechanisms are considered to ensure the operational continuity of the service, which should be described by the Company in the topology of the system, according to the services available. To ensure this high availability, the architecture must contain as many redundant elements as necessary, both at the software and hardware level (power supplies, fans, mirrored arrays of disks, data links, etc).
- i) The system must handle and allow a capacity of 10,000 users to be monitored simultaneously. "Loosely" means that the processing, memory and data storage resources are under 70% utilization.
- j) The software must be configurable, allowing the administrators to modify the status of the warnings generated by the devices.
- k) The software system interface will always be in Spanish.
- l) The applications of the software will allow the hierarchy of user levels and management, through at least the following profiles:
 - Operative user
 - Super administrator user
- m) It will generate work orders, manage and schedule the installations, etc., in order to coordinate the installation, removal and technical support activities of the devices.
- n) It will allow managing all the events that occur, with the purpose of keeping a control over them and being able to make statistics on the information generated from the monitoring, accessing all the variables that the system delivers.
- o) It will allow the administrative management of the monitoring service. This tool will be able to handle accounting aspects regarding facilities, uninstallations, replacements, such as the operation of the Monitoring Center itself.
- p) The system will give full support to all the functionalities that arise from the process diagrams, according to the respective technical annexes.
- q) The system will offer, within its functionalities, the creation of dynamic reports, according to the needs of the Service, among them:
 - q.1) Statistical Reports.
 - Event log: summary report with what happened during the previous night, indicating the warnings (pre-alarms and alarms) produced. All this must be indicated with the time of occurrence, convicted involved and victim (if it is applicable).

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- Summary of convicts who registered warnings, separated according to the type of sentence (Partial Seclusion or Intensive probation).
- Convicts in valid status in the system.
- Convicts who registered alerts.
- Individual report of convicts subject to night detention, who must detail the time of entry, time of departure and alerts.
- Individual report of convicts with monitoring in exclusion zones, which should include surveillance route and alerts.

In addition, the reports in question will include bar, line and circular graphs, with individual and aggregated data. The report will be able to be exported to standard formats, such as Excel, PDF, Word, etc.

q.2) Administrative reports

As indicated above, the system will allow extracting reports of an administrative nature, such as:

- a) List of installations carried out.
- b) List of uninstallations made.
- c) List of monthly visits of preventive and corrective maintenance, made to the Monitoring Center.
- d) List of relevant warnings for the period.
- e) List of developed training services.
- f) List of other relevant activities not included in the above and that are part of the obligations established in these terms.
- g) Devices in a state of validity in the system.

The functionalities indicated in letters m), n) and o) above will be operated by both Monitoring Centers and by the Social Rehabilitation Centers of the country.

The Company will develop applications that aim to improve processes and interoperate with other computer systems, corporate or external, in case the Gendarmerie requests it for better functioning of the telematics monitoring service.

Service coverage.

It corresponds to the percentage of the national territory covered by the cellular mobile data network, with map mapping, at the level of street names and number of addresses. It is required that the system contemplates, regardless of the percentage, coverage in all the communes of the country (currently 346).

Level of service committed to the availability of the monitoring system.

It corresponds to the percentage of minutes available per year of the solution committed by the Company, that is, the state in which the system is able to monitor all the installed hardware and software functionalities, including the necessary telecommunications. The remaining minutes of non-availability (difference between 100% and the percentage of availability) will be considered as minutes per year destined for scheduled work for maintenance and updating of the system, in which an interruption of the monitoring service is required.

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The Company presents a solution with an availability of at least 99.7% of the available minutes per year. This implies that on a monthly basis, the Company cannot accumulate more than 120 minutes dedicated to programmed work that implies unavailability of the monitoring service. Each scheduled work must mean less than 15 continuous minutes of unavailability of the monitoring system. Scheduled works must be authorized by the Gendarmerie and carried out preferably during the maintenance window schedule. The maintenance window should go from 3:00 PM to 8:00 PM. The authorization of the programmed works must be requested, presented in writing, 48 hours in advance, a work plan to the Department of Telematic Monitoring, clearly indicating:

- a. Name, national identity card (or passport), position, company, contact telephone number and email address of the engineers and / or technicians responsible for the scheduled work.
- b. Objective of the scheduled work.
- c. Scope of scheduled work, indicating which stage of the whole system affects.
- d. Start time and end of scheduled work.
- e. System unavailability time during scheduled work.
- f. Actions of return back (rollback).

It is the responsibility of the supplier company to coordinate this information with the subcontractor companies so that Gendarmerie of Chile is opportunely informed with respect to the programmed works. The breach of the service level of the monitoring system implies the collection of fines to the supplier company, in accordance with the relevant provisions of this contract.

Data Center

The Company has a certified Data Center to install its processing servers and the necessary databases. Said Data Center will communicate with the Monitoring Centers through a data transport network supported with quality of service, for example: transport network with MPLS (Multiprotocol Label Switching) or its equivalent, for example, IBM Cloud, used for the operation of the previous contract. This transport network must allow communication between the wireless data network, the Monitoring Centers, the Data Center, the Gendarmerie data backbone and the data backbone of Carabineros of Chile and / or the Chilean Investigation Police, if that corresponded. All the required inputs (routers, switches, wiring, labeling, lease of links, etc.) to achieve this communication will be of the Company's cost.

Data Center Certifications

Certification will be in compliance with international standards, understood as those specified in North American or European standards.

The Company has its own or outsourced Data Center, which, at least, has the following certifications:

- a) Structured wiring.
- b) Energy backup system.
- c) Fire protection system.
- d) Climate system.
- e) Grounding system.

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Data Center hardware and software specifications.

The following is a list of the minimum elements that the Company has in the architecture for the Data Center processing and database racking equipment:

- a) Monitoring servers with their respective licenses, with exclusive dedication to the monitoring system. The shared use of servers with third parties, or the virtualization of servers is not allowed.
- b) Software with the monitoring server applications and their respective licenses.
- c) Database engine software with their respective licenses.
- d) Database system with mirrored disk arrays.
- e) Hardware required for data connectivity with redundant links that allow access to the Gendarmerie data processing, database and backbone servers. The routers and connectivity configuration services, as well as the enabling and laying of cables, fibers, connectors, etc., will be the responsibility of the Company.
- f) Hardware and software of firewalls that allow defining a safe zone through security policies.

The high availability of the architecture contains as many redundant elements as necessary, at the software and hardware level.

Renewal of hardware equipment installed in Data Center

The Company will replace, if necessary due to failure or obsolescence, the equipment to guarantee the operational continuity of the contracted service, a situation that will not represent any cost for Gendarmerie of Chile.

Encryption of information.

The Company will indicate the encryption levels of its solution, between the devices and the monitoring system. The contractor is required to present at least the level of encryption of the device in the air channel.

Backups

It will be the obligation of the Company to maintain permanent backups of the database that generates the telematic monitoring service and deliver daily copies to the Gendarmerie.

Obligation of maintenance and periodic update of the Local Database

The Chilean Gendarmerie will have a Local Database hosted in its own dependencies destined to the storage of all the information generated by the Telematic Monitoring System.

The Company must ensure the historical update of the information contained in the Database that the Gendarmerie of Chile has throughout the term of this contract. **The aforementioned updating process will be carried out every two months and will be required by the Telematic Monitoring Department within 30 calendar days following the expiration of the respective due time.**

Once the date of termination of the contract has arrived, the Company will have 30 consecutive days to accredit the total update of the Database with all the accumulated historical information, that is, the one that was accumulated in the Database at the beginning of the services, as well as the IFT and Trackerpal systems, in monitoring the penalties that to date are controlled until the end of this contract.

For purposes of proving that the process of updating the Database is complete in the sense that it contains all the information required, the company must provide a database of its own to which Gendarmerie of Chile can only access to make inquiries.

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In the event that the Chilean Gendarmerie verifies breaches and / or delays in the established obligations, it will be subject to the provisions of Article 10° of this contract.

Telematic Monitoring Devices

-Monitoring device for Condemned.

The devices for telematic monitoring have the following fundamental characteristics:

- a. The device identifies the condemned person unequivocally in the monitoring system.
 - b. The device reflects the convict's position, either in the form of coordinates or in the form of presence or absence within a specific geographic area, according to the streets to be completed. There are areas of inclusion that will restrict the displacement and permanence of the convicted person in his home during predefined times judicially in the case of the penalty of partial imprisonment.
 - c. The monitoring devices are easy to install and adjust and are equipped with a manipulation detection mechanism, which is able to verify this type of events and transmit them to the Monitoring Centers. Any attempt to mismanage, attempt to discard it, open the box containing the receiver, physical damage to the equipment and improper removal of the device or tracking unit, which does not allow the optimal functioning of the telematic monitoring service, is "manipulation".
 - d. The data transmitted by the solution must, in turn, be transferred to the Monitoring Centers by means of a communication system, allowing this transfer in an autonomous manner, at least every 2 minutes, being able to be configured remotely so that this transfer can be done in a greater or lesser time, according to the needs of Gendarmerie.
 - e. The solution is able to configure a parameter that will establish the maximum distance or the measured radius from the location of the device or tracking and receiving unit, to which the condemned can go. This value must be configurable through the programming made from the Monitoring Center.
- In the case of the sentence of Intensive probation, the margin of error of measurement, between the real location of the prisoner monitored and the coordinates sent by the device, must be less than 24 meters.
- f. In the case that the means of transport of the location data of the convicted person is the mobile telephone network, the solution must consider the CELL-ID information or identifier of the cellular telephone base station to which the convicted person is connected. The Company must provide a visualization system that allows identifying, in a map, the approximate location of the convicted person.
 - g. Those devices that are in permanent contact with the body of the condemned will be hypoallergenic and resistant to water, at high operational temperatures, changes in temperature, humidity and extreme conditions.
 - h. Likewise, the transmitting device will comply with the maximum electric field levels allowed by the Sub-secretariat of Telecommunications (SUBTEL), in a way to not generate relevant interferences with other electronic and / or telecommunications devices.
 - i. The device, in conjunction with the software system, will be able to autogenerate different levels of warnings in real time, both from entry into exclusion zones, and from exits from inclusion zones, as well as the pre-exclusion zones that allow generating pre-alarms, which should, if necessary, be able to be determined remotely.
 - k. It must also allow bidirectional communication between the convicted person and the Monitoring Centers through the unit itself and/or an additional device, which must be carried by the condemned. This communication channel will be used to transmit warnings from the Monitoring Centers.
 - l. The device in conjunction with the software system must contemplate a mechanism of conservation and recovery of information in case of failures.

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m. The device must have an autonomous power supply system, information on the battery's state of charge and alert to the Monitoring Centers when the battery's charge status is low.

n. The device, in conjunction with the software system, must transmit alerts to the Monitoring Centers when the convicted person transgresses the limits established in the sentence for their displacement or those limits established in the Gendarmerie action protocols to avoid potential rupture of the sentence.

Device for the victim.

In addition to the characteristics mentioned above, the device for the victim will consider, in accordance with article 23 bis of Law No. 18,216, the following minimum technical requirements:

- a. Allow in the monitoring system, unequivocally, the knowledge of the location of the victim communicating its position to the Monitoring Center, when it is noticed the proximity with the condemned, according to pre-established parameters.
- b. The device, in conjunction with the software system, must allow knowledge of the victim's location within the national territory and communication of its position to the Monitoring Center, through some technological means, its combination or any other development that improve its functionality.
- c. Allow bidirectional communication between the victim and the Monitoring Centers. Allow the system to emit a perceptible signal in the Monitoring Centers in case of proximity between the convicted person and the victim.

The devices to be installed in the home of the convicted person, the body of the convicted person and / or the victim, use a wireless data transport network to communicate with the Monitoring Centers. In case of using the GPS cellular data network, a dedicated APN should be created in the Core MPBN of the mobile operator associated with the Company and have at least one level of data encryption, either at the device level and / or in the communication channel and / or end-to-end encryption etc. The Company will detail its security levels throughout the communication section.

Installation, support and removal of devices.

An integral solution will be provided to achieve the proposed objectives, considering the certification of technical feasibility, installation, technical support and removal of the monitoring devices, together with the Gendarmerie, throughout the national territory. This service must consider, at least:

- a. - The "technical feasibility certification", which consists in the issuance of a document, to be called the "technical feasibility certificate", which indicates the possibility of supervising the convicted person through the telematic monitoring system to be hired. In case the result is negative, said certificate must be founded.
- b. - The supply, installation and removal of the devices required for the implementation of the system, in time and form, in accordance with the requirements of Gendarmerie of Chile.
- c. - Provide permanent technical support, remotely, through professional support for failures that arise in the manipulation of devices. If a solution of the damage is not possible, the supplier company must proceed to perform the repairs in person.

For the installation process of the device, the provider will be accompanied by an official to be designated by Gendarmerie. In the case of the sentence of partial seclusion, if required, in accordance with the available technology, perform an installation in the home of the convicted, the company must provide the necessary transportation to mobilize its staff with the Gendarmerie official from the Center of Social Reintegration, up to the domicile of the convicted person and from the latter to the Center for Social Reintegration. The costs associated with this transport will be charged to the company providing the telematic monitoring service.

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The benefits referred to in this contract are developed in the processes contained in the following flow diagrams, incorporated as technical annexes to this instrument:

For the installation of each device:

- 1. - Technical Annex "Application process and technical feasibility analysis for installation of telematic monitoring device".**
- 2. - Technical Annex "Process of installing a telematic monitoring device in the home of a convicted person".**
- 3. - Technical Annex "Process of Installation of telematic monitoring device to the victim".**

To control compliance with the sentence:

- 1. - Technical annex "Process of control of the sentence of partial seclusion".**
- 2. - Technical Annex "Process of control of the sentence of intensive probation".**
- 3. - Technical Annex "Process of control of the termination of monitoring and removal of devices".**

Maximum time of response

The Company compromises to give a response time to provide technical assistance (installation, uninstallation, replacement of devices and technical support in case of failure) of 48 hours, in the national territory. Regarding the report of the technical feasibility report certification, the Company must evacuate it within 24 hours counted from the request formulated by the Gendarmerie of Chile.

Hardware and software from the Monitoring Center and the Regional Support Center.

The company must permanently provide and maintain the necessary technology and hardware, equipment, licenses and data link to perform the telematic monitoring functions of condemned and victim. The Monitoring center, for 25 operators and 3 supervisors, and the Regional support Centre for 12 operators must be maintained.

Computers for Operators

In order to administer and operate the system efficiently, Gendarmerie will make available permanently 25 personal computers (PCs) for the Monitoring Center and 12 personal computers for the Regional Support Center, all of them with 4 GB in RAM. With HD monitors, 1 Terabytes minimum, with 10/100/1000 Ethernet network card, optical mouse, high performance graphics card not integrated to motherboard and independent memory, keyboard and DVD recorder for operators connected to the system of telematic monitoring and 3 similar computers for supervisors in the Monitoring Center. Each computer should have 2 monitors with a viewing area of not less than 19 inches each. The capacity and speed of the processor must be at least three times the minimum required by the system.

The Gendarmerie of Chile may require that the Company provide maintenance, technical services, replacement in case of failure and/or obsolescence of the equipment referred to in the previous paragraph. The replacement should consider all the hardware facilities that are deemed convenient to make the task of the operators more efficient and effective, with the necessary space in their hardware, incorporating Windows operating system, Microsoft desktop software (Word, Excel and Outlook). Updateable anti-virus software should be included. All these softwares must be installed with their respective license.

Likewise, the Company must satisfy requirements related to ergonomic aspects (example: physical disposition of the equipment on the work space, comfortable seats, etc.), due to the levels of concentration and time that the operators must dedicate to this work.

- Printers.

The Gendarmerie of Chile will make available, two color printers, multifunctional basic with network connectivity, that have, at least, a scanner, that allows the digitization of sheets in letter and trade form, it being the obligation of the Company to maintain these equipments as well as to provide the necessary input for its operation at the request of the Department of Telematic Monitoring.

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- General visualization system of the Monitoring Center and Regional Support Center.

Gendarmerie of Chile will make available permanently, for the Monitoring Center and Regional Support Center, 4 flat LED monitors, 42 inches, full HD (1920 x 1080 pixels), with PC input, HDMI input, video input component and USB connection. The Company must, in the event of faults and / or obsolescence, replace them by the same model or higher, for this they must consider that said monitors will be on 24 hours, every day of the year.

In addition, the Company must provide maintenance and replacement in case of failures and / or obsolescence of the multimedia projectors that Gendarmerie has arranged for each of the centers. In case of replacement, the Company must consider the installation and configuration of these equipments considering equipments of equal or better quality in relation to the one that is replaced.

Telephone exchange

Gendarmerie will provide an IP telephone exchange (which supports VoIP protocols H323, SIP, etc.), with their respective switches with QoS and Power over Ethernet and 70 IP annexes with viewfinder and with the option of using a headset and speed dialing capability, from the computer, through an optional softphone application. There are also four fax machine devices, compatible with the telephone center used.

The Company must provide maintenance and replacement in the event of failures and / or obsolescence of the necessary elements that make up the Telephone Center that Gendarmerie has arranged for each of the centers. In the event of replacement, the Company must consider the installation and configuration of equipment considering models of equal or better quality in relation to those that are replaced.

The Company must provide a free access line (line 800 or similar) for the communication of convicts and victims to the Monitoring Center, and two annexes where the calls made to it are received. For connectivity against the PSTN, you must provide a frame with overflow capability to 5 analogous trunk lines. The service of connection to the public telephone network must be provided, subcontracting it if necessary. The cost of the calls generated from the Monitoring Center will be in charge of the Gendarmerie. In case of power failure, the telephone service must have a minimum autonomy of 15 minutes by UPS; the system and all its components must be connected to the backup electrical network provided by the generator.

Call recording system.

For voice communications, the company must provide a system capable of recording all the communications established in the Monitoring Center, for which it must contemplate the supply and installation of a recording, editing, and Audio and reproduction administration system with the following facilities:

- a. Be compatible with the monitoring system to perform the recording function.
- b. Accept connection of analog and digital audio lines for recording.
- c. Store together with the audio of each recording, the data of the calls, such as number of origin, destination number, duration of the call, date and time of the calls, etc.
- d. The call registration system must allow access to any stored call at any time.

The storage period of the audio backed up files will be at least three years.

It must provide a recording system that has a management system with, at least, the following capabilities:

- a) System that has a call finder by criteria such as: duration of the call, date and time, number dialed and indication if the call is incoming or outgoing from the Monitoring Centers.

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b) Recording system that has an independent workstation, compatible with the recording system, based on a complete computer system (PC, 19 " monitor, keyboard, mouse, speakers, DVD recorder, etc.), which must have the ability to be connected via network to the recording system, and must also contain all the applications necessary to supervise, operate and configure the system directly on site.

Satellite telephone system.

The Gendarmerie of Chile will provide two satellite telephones for each monitoring center. It will be the duty of the Company to keep them with an active balance for 12 continuous hours in each device, to be used in emergency calls in case of catastrophe. The cost of maintaining the satellite telephone service is borne by the Company during the term of the contract. The balance must be available again at the end of the emergency.

Gendarmerie of Chile may require the Company maintenance, technical services, and spare parts for the same model or higher in case of failure and / or obsolescence of the equipment referred to in the previous paragraph

Renewal of hardware equipment installed in the Monitoring Centers.

The Company must replace, if necessary due to failure or obsolescence, the equipment to guarantee the operational continuity of the contracted service, a situation that will not represent any cost for the Gendarmerie of Chile.

Support, assistance and maintenance.

Support and assistance on site.

The Company must provide support and assistance that is available on a permanent basis, that is, 24 hours every day of the year. The support should be oriented to:

- a) Support of the monitoring system.
- b) Support to the operators and supervisors of the Monitoring Center and, in general, to the Gendarmerie personnel that require it.
- c) Programming and supervision of preventive and corrective maintenance activities.
- d) Other functions to be defined during the operation of the Monitoring Center.

For these functions, regardless of the system of support and assistance that is designed, you must have an official of the Company that is available 24 hours in the active Monitoring Center, in addition to attending any possible failures, of an urgent nature or another similar requirement.

Repair and replacement of equipment against failures.

The Company must consider the repair and replacement (for parts and original and new parts) of the equipment and accessories delivered as part of this service.

Deadlines for installation, replacement, removal and technical support of the devices.

a. The Gendarmerie will inform the Company of the requests for installation and/or removal or replacement of the devices, with at least 48 hours in advance of its execution. This implies that the Company must be ready within that period to attend where Gendarmerie requests it. In the event that the Company does not appear, the fines indicated in this contract will apply.

b. In the event that the device requires technical support, the Company will have a period of 3 hours to solve the problem remotely, counted from when the Gendarmerie or the Company itself notifies the problem. In the event that the remote support does not solve the problem within a period of three hours, the Company must inform the Gendarmerie and the information described in letter a.- of the previous paragraph will be applied.

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c. - In the case of requesting the Technical Feasibility report for the installation of a Telematic Monitoring device in the domicile of the accused, the Company must have a web consultation portal, where the Gendarmerie can consult online, entering the street, the number and commune of the domicile of the accused for the purposes of article 23 bis of Law No. 18,216. This portal must be available 24 hours a day, every day of the year, and its result will be considered by the Gendarmerie as an official response from the Company. The portal before a Feasibility query must show a result of the type "Positive Installation Feasibility", "Negative Installation Feasibility" and "Feasibility Pending to Resolve", in case of meeting or not meeting the coverage requirements. The reason must also be indicated in those cases where the feasibility of installation has a negative result. In the event that the Company requires to review and validate this response online, it will have a period of 24 hours from the time of the consultation to the site.

Preventive and corrective maintenance service.

The supplier company must deliver, to the technical counterpart of the Monitoring Department, on the first business day of each month, the planning of the preventive maintenance services and a monthly report of the preventive and corrective maintenance services performed the previous month. Strict compliance with the dates planned by the contractor will be required.

In the case of equipment installed in the "communications room or local data center" located at the National Telematic Monitoring Center, a schedule of maintenance services must be delivered on the first working day of each month, but it is understood that any modification of this programming should be informed and justified to the Gendarmerie staff for its authorization.

Preventive Maintenance.

The supplier company must prepare forms for carrying out preventive maintenance services in each system. Once the maintenance work has been completed, the corresponding tests must be carried out to ensure the continuity of the service. The form must contain the following information:

- Name of the technician who performs the maintenance service.
- Date and time of entry or start of maintenance work.
- Date and time of completion of maintenance work.

List of all the tasks performed, the state before maintenance and the final status after maintenance, indicating the respective observations of each task.

For the specific case of some maintenance that considers the task of measuring values, for example, percentage of use of the File System, they must be registered in the form, which must also contain the range of values allowed for each one of them.

If there are forms submitted by third parties, the contractor must complete the respective form for said maintenance, also enclosing the report of the external third party that carries out the maintenance, to the maintenance report that will be submitted to the Service.

Gendarmerie reserves the right to attend preventive maintenance services carried out in the field.

The Company will be responsible for updating the topology diagrams of each system, if modifications are made to them. These updates must be delivered within a period of no more than one day after the changes are made. Any maintenance work that is required to be performed and that involves a subcontractor must be supervised continuously and in person by authorized technical personnel of the contractor company. The authorization to enter the Monitoring Center that is being subject to the maintenance of subcontractor personnel must be previously requested to the Gendarmerie.

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The Gendarmerie will have the right to revoke the entry permit of a worker of the Company or of a subcontractor, in which case they must base their decision.

Likewise, the Gendarmerie will have the right to request the replacement of the personnel from the supplier company. This will be applicable when Gendarmerie is not satisfied with the service provided by someone from the supplier company.

The provider company may not connect remotely to any of the data network of the Gendarmerie of Chile, without prior authorization granted by the Gendarmerie. Said authorization shall not be necessary, in the case of emergency situations and / or emergencies, which merit the connection of the supplier company to the networks.

All access to reading, operation or modification of any system or database of the Monitoring Center or equipment installed in the Data Center, must be previously authorized by the Gendarmerie within a period of 48 working hours and in case the Gendarmerie does not rule within of said period, the authorization shall be deemed granted.

Preventive Maintenance Report.

The general maintenance of the system must contemplate the aspects indicated in the Technical Annex "General requirements for the execution of maintenance services" and Technical Annex "Procedure of Preventive Maintenance of the Data Center and Monitoring Centers". For the specific maintenance of the computer systems, the provider must take as an example of a report, the "Monthly Report of Alarms and Performance of the Hardware and Software of the Monitoring Platform."

Corrective Maintenance Report.

All equipment repairs must be executed, according to the manufacturer's original specifications.

The supplier must generate a corrective maintenance report every time an action of this nature is carried out. This report must be submitted no later than 48 hours after the failure, which must contain, at least, the following information:

- Place, date and time.
- Responsible for the repair procedure.
- Fault description.
- Cause of the malfunction.
- Technical solutions adopted (repair, replacement, etc.).
- Level of system operation after repair.

Gendarmerie reserves the right to attend corrective maintenance services carried out in the field.

Training and manuals.

It will be the exclusive responsibility of the Company to guarantee specialized training for the personnel of the Telematic Monitoring Department (Monitoring Center and Regional Support Center) on an ongoing basis throughout the provision of the service, always in collaboration and under the supervision of the corresponding Department.

The Company in order to maintain an adequate provision of the service must also provide initial training in the terms indicated in the previous paragraph, to 100% of the new officers hired in the period.

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The provider company to ensure the proper functioning of the Telematic Monitoring System must train the Department staff as many times as it deems appropriate, coordinating with the Head of the Department the execution of the activities.

All expenses associated with the training activities shall be borne by the Company, with the exception of those related to the transfer and residence of the officials to be trained.

Subjects to capacitate.

The supplier company must capacitate the Gendarmerie personnel, in the following matters:

- a) Training of monitoring platform operators.
- b) Training of installation/uninstallation of mobile devices.
- c) Descriptive training of procedures in the use of the following elements:
 - Telephone exchange and satellite telephones.
 - Administration of the access control system.
 - Air conditioning and climate system.
 - Anti-fire system.
 - Generator and backup batteries.

In addition, the Company will provide the training and operation manuals and problem solving manuals for each of the topics specified in the previous paragraph.

Other matters to consider.

Communicative skills.

In order to achieve an efficient and persuasive mastery in the use of verbal expression techniques, a diction and communication course should be considered for the operators and supervisors of the Monitoring Centers.

Conflict and crisis management.

The training plan must consider the training of the operators and supervisors of the monitoring system, tending to acquire knowledge, techniques and strategies that allow minimizing the impact of any contingency, generated by emergency situations and / or crisis. This training must provide skills and abilities that allow operators to attend, promptly and professionally, emergencies that occur due to their function.

The subject for the training of communication skills, conflict management and crisis, will be agreed between the Company and the Gendarmerie.

Language of training and manuals

The trainings and manuals must be delivered in Spanish. Acronyms and technical acronyms are allowed in English, which must be explained in a glossary of technical terms. In addition to the manuals delivered to each student in each course, you must submit 2 copies of quick reference manuals to solve the problems (troubleshooting) for each of the subjects to be trained. Likewise, the Company must deliver the set of backups in electronic format (PDF, WORD, etc.) in 5 replicated CDs and in a Pendrive.

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Place of training.

The trainings will be carried out in dependencies provided by the Company. All the necessary materials and laboratories must be available to carry out the required training. Likewise, the contractor must consider a coffee-break (tea, coffee, mineral water, juice and cookies) of 20 minutes at mid-morning and mid-afternoon during each day of the training given.

Without prejudice to the issues outlined here, the Gendarmerie of Chile may require the Company to carry out training related to the services offered, after determining a agenda that will be agreed upon by the parties.

Training certificate.

The Company must provide a certificate of participation in each of the trainings, when the student registers an attendance greater than or equal to 80%.

EIGHTH: GUARANTEE OF FAITHFUL AND TIMELY COMPLIANCE OF THE CONTRACT.

The Company, in order to guarantee the faithful and timely fulfillment of this contract, delivered the bank guarantee certificate to the N ° 007821-5 View, dated November 27, 2017, taken at the Banco de Chile, on behalf of of Gendarmerie of Chile, for an amount of \$ 344,471,921. - (three hundred and forty four million, four hundred and seventy one thousand and nine hundred and twenty one), with an expiration date on January 18, 2019.

This guarantee, whose amount is equivalent to 5% of the total budget assigned to this contract must be valid for 60 business days from the date of termination of the contract in accordance with the provisions of Article 70 of Supreme Decree No. 250., It will only be returned once the previous period has expired and provided that the Technical Counterparty has indicated, in writing, its total conformity with the service contracted within the referred one, understanding that such agreement exists if the Gendarmerie has not pronounced within the indicated term, and is accredited the fulfillment of labor and social security obligations of the workers of the Company.

In the event that the contract extends for a period longer than the validity of the guarantee slip, it must be renewed successively by the contractor in equal and successive installments, until the new expiration of the contract.

This guarantee may be presented to collection when the Company does not comply with the obligations and / or the terms established in this contract, in which case Gendarmerie is already authorized to be presented for collection, according to the corresponding procedure.

It may also be presented for collection when the contractor fails to comply with its labor and social security obligations of its workers, during the period of execution of the contract and in order to facilitate the payment of said obligations. For this purpose, the state of fulfillment of labor obligations and contractors will be accredited through the respective certificate which can be requested at the request of the Gendarmerie of Chile.

In the event that the amount of the guarantee of faithful and timely performance of the contract is reduced, due to the application of a fine, the contractor must renew said guarantee, with the purpose of keeping the original amount indicated in the present article.

NINTH: INDIVIDUALIZATION COORDINATING THE CONTRACT OF PART OF THE COMPANY AND INDIVIDUALIZATION BY GENDARMERIA DE CHILE, OF THE TECHNICAL COUNTERPART.

Contract Coordinator:

The Company appoints Andrés Briceño Sedano, Coordinator of the Contract, nationality Chilean, national identity card 11.365.974-2 of profession mechanical engineer, domiciled in Isidora Goyenechea 2800 43rd floor, Las Condes, Metropolitan Region, email: Andres.briceno@trackgrp.com, cell phone number +56997098605, who will act as a valid interlocutor before the Gendarmerie Technical Counterpart. In the performance of its assignment, the Contract Coordinator shall, at least:

- a) Represent the Company in matters related to the execution of the contract.

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b) Coordinate the actions that are pertinent for the operation and fulfillment of the contract

c) Report all situations that may affect the proper functioning of the Service contracted within 24 hours after they occur, without prejudice to the responsibilities that may be incurred by the Company.

Any change related to the Contract Coordinator must be informed, in writing, to the Technical Gendarmerie Counterparty at the address indicated in the contract, by the Legal Representative of the Contractor, on the business day following the change.

Gendarmerie designates as Technical Counterparty in charge of coordinating, supervising and giving approval to the work executed, to the Head of the Department of Telematic Monitoring.

The Head of the Department of Telematic Monitoring will be responsible for:

1. Control and supervigilar the correct execution of the contract.

2. Receive in accordance the report(s) contemplated for the development of the service, presenting to the contractor the observations and/or recommendations that are deemed pertinent.

3. Collaborate and assist the contractor in the field of its competences.

4. Authorize in writing, adjustments to the project, address and resolve situational or emerging situations not considered.

5. Supervise the execution of the service in order to request the payment of them in accordance with the fifth clause of this contract. To perform this supervise, the contractor monthly, in addition to what is indicated in the aforementioned article, must submit a report that contains the following information:

- Devices installed, replaced and uninstalled.
- Active devices and monitored daily, depending on the type of technology used.
- Minimum Guaranteed monthly payment, in case the hypothesis developed in the fifth article occurs.
- Fines taken in the previous month.
- Minutes of system unavailability.

6. And all other functions related to the correct and efficient execution of the contract and that are entrusted to it by the Gendarmerie.

The Company must grant all the facilities destined to the execution of the control and supervigilance functions of the Technical Counterpart of the Gendarmerie of Chile.

TENTH: FINES ESTABLISHED FOR BREACH OF THE CONTRACTUAL OBLIGATIONS, BY THE COMPANY.

When the technical counterpart detects a fact constituting an infraction that gives rise to the application of a sanction, it will promptly communicate said situation to the contractor in writing, who will have a period of 5 days to make their disclaimers.

In these discharges, the contractor may assert all the rights that Law N °19.880 recognizes as an interested party in an administrative procedure, being able, by way of example, to propose the actions or procedures that it deems necessary, as well as requesting or accompanying the means of proof that it deems convenient.

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The technical counterpart will have the quality of instructor in the administrative procedure that is developed, being able to order the opening of a trial period, in order to practice as many evidentiary procedures as it deems pertinent.

Once the instruction of the procedure has been completed, or the deadline for receiving the discharges has expired without having been sent, a report will be issued by the technical counterpart in which the application may be proposed to the National Director of the Gendarmerie of Chile. The application, which will be specified through a resolution based on this authority, will be notified by registered letter addressed to the domicile of the contractor, without the need for a judicial request. The notification shall be understood to be made on the third day following the entry of the respective letter at the post office.

The contractor may claim this act through the resources and within the terms established by current legislation.

The fines that are appropriate will be processed administratively, without a form of judgment, and will be deducted from the state of payment or retentions of the contract, or from the guarantee of faithful and timely compliance with the contract, if those are not sufficient, in that order.

Despite everything, and in accordance with the provisions of Article 79 ter of Supreme Decree No. 250, each of the fines to be paid will have a maximum limit of 15% of the total amount of the monthly payment corresponding to the deduction.

In addition, if the breach causes damages to the Gendarmerie of Chile, it will initiate the legal actions that are pertinent.

FINES RELATING TO AVAILABILITY LEVELS OF THE TELEMATIC MONITORING SERVICE.

In the event that the contractor presents a breach in the total available minutes of the contracted monitoring system, in the times indicated in each case, a fine equivalent to:

- a) \$ 14,500,000.- (fourteen million five hundred thousand pesos), if the breach is greater than 120 minutes and less than or equal to 130 minutes, within one calendar month.
- b) \$ 36,450,000.- (thirty-six million four hundred and fifty thousand pesos), if the breach is greater than 130 minutes and less than or equal to 140 minutes, within one calendar month.
- c) \$ 73,000,000. - (seventy three million pesos), if the breach is greater than 140 minutes, within a calendar month.

In addition, for each time a loss of availability of the system exceeds 15 minutes for programmed work, a fine equivalent to \$ 14,500,000 will be applied (fourteen million five hundred thousand pesos).

FINES RELATING TO NON-COMPLIANCE WITH THE DATABASE UPDATE OBLIGATION.

In case the contractor presents a breach in the execution of the database update processes, in the terms established in the respective section, a fine equivalent to \$ 50,000,000 (fifty million) will be applied for each day of delay counted from the verification of unfulfilment in the duty to update.

In the event that the breach occurs during the last update period, this is 30 calendar days from the date of termination of the contract; Gendarmerie of Chile will be entitled to proceed to collect the Guarantee of a faithful fulfillment of the contract.

In case the contractor presents a daily breach in the total number of data received in a monitoring center in relation to the total number of data that should be received in the respective monitoring center, affecting less than ten percent (10 %) of the total installed devices, a fine will be applied, from the first to the fifth day of delay equivalent to:

- a) \$ 7,250,000.- (seven million two hundred and fifty thousand pesos) per day, if the number of data received at midnight on the respective day is less than 90% and greater than 80% of the expected number of data.

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- b) \$ 14,500,000.- (fourteen million five hundred thousand pesos) per day, if the number of data received at 24:00 hours on the respective day is less than or equal to 80% and greater than 70% of the expected data numbers.
- c) \$ 21,750,000- (twenty-one million seven hundred and fifty thousand pesos) per day, if the number of data received at midnight on the respective day is less than or equal to 70% of the expected data numbers.

In case the contractor presents a daily breach in the total number of data received in a monitoring center in relation to the total number of data that should be received in the respective monitoring center, affecting less than ten percent (10 %) of the total installed devices, a fine will be applied, from the sixth to the fifteenth day of delay, equivalent to:

- a) \$ 14,500,000. - (fourteen million five hundred thousand pesos) per day, if the number of data received at midnight on the respective day is less than 90% and higher than the expected 80%.
- b) \$ 21,750,000- (twenty-one million seven hundred and fifty thousand pesos) a day, if the number of data received at midnight on the respective day is less than 80% and higher than the expected 70%.
- c) \$ 29,000,000- (twenty nine million pesos) a day, if the number of data received at midnight on the respective day is less than the 70% expected.

In case the contractor presents a daily breach in the total number of data received, in relation to the total number of data that should be received, in the respective monitoring center, which affects less than ten percent (10%) of the total installed devices will be applied a fine, from the fifteenth running day of delay, equivalent to:

- a) \$ 21,750,000- (twenty-one million seven hundred and fifty thousand pesos) per day, if the number of data received at midnight on the respective day is less than 90% and higher than the expected 80%.
- b) \$ 29,000,000- (twenty nine million pesos) a day, if the number of data received at midnight on the respective day is less than 80% and higher than the 70% expected.
- c) \$ 36,250,000- (thirty-six million two hundred and fifty thousand pesos) per day, if the number of data received at midnight on the respective day is less than the 70% expected.

In case the contractor presents a daily breach in the total number of data received, in relation to the total number of data that should be received, in the respective monitoring center, which affects more than ten percent (10%) of the total of installed devices, at 24:00 hours on the respective day, an additional fine will be applied to those described in this article equivalent to \$ 14,000,000. - (fourteen million pesos) for each day in which the described delay is configured.

Finally, in the event that data is received at the respective monitoring center, at least on two occasions, with time intervals between each time exceeding 10 minutes, an additional fine will be applied to those described in this article equivalent to \$ 14,000,000 .- (fourteen million pesos), for each day that is described.

FINES RELATED TO THE INSTALLATION, UNINSTALLATION, REPLACEMENT OR TECHNICAL SUPPORT ON THE SITE OF THE TELEMATIC MONITORING DEVICES.

In the event that the contractor presents a breach on the day and / or time notified by the Gendarmerie to perform the installation, removal, replacement or on-site technical support of any of the telematic monitoring devices that includes the contracted service, a fine will be applied, for each device involved in the breach, equivalent to:

- a) \$ 90,000. - (ninety thousand pesos) if the breach is greater than 30 (thirty) minutes and less than 60 (sixty) minutes, to appear at the place determined in the notification made by the Gendarmerie to the contractor.
- b) \$ 120,000. - (one hundred and twenty thousand pesos) if the breach is equal to or greater than 60 (sixty) minutes, to appear at the place determined in the notification made by the Gendarmerie to the contractor.

The Gendarmerie will determine the date and time of carrying out these activities in relation to the technical offer presented by the contractor regarding its logistical capacity, as established in the section indicated above of the technical bases.

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FINES RELATED TO TECHNICAL FEASIBILITY REPORTS.

In the event that the contractor delays in the delivery of the technical feasibility report, requested by the Gendarmerie, a fine equivalent to \$ 600,000.- (six hundred thousand pesos) will be applied, after 24 hours from the request made by the Gendarmerie, sum which will also be applicable for each following day of delay.

FINES RELATED TO MAINTENANCE OF THE EQUIPMENT INVOLVED IN THE SERVICE.

In the event that the contractor presents a breach in the execution of the maintenance of the equipment owned by the Gendarmerie of Chile involved in the service, a fine equivalent to:

a) \$ 1.000.000. - (one million pesos) for each day of delay in the execution of the corrective maintenance in the equipment involved in the service.

b) \$ 500,000. - (five hundred thousand pesos) for each day of delay in the execution of the preventive maintenance in the equipment involved in the service.

FINES RELATED TO REMOTE TECHNICAL SUPPORT AND SITE ASSISTANCE.

In the event that the contractor does not comply with the technical requirement, does not solve the problem in the maximum time to provide remote technical support for failures in the system and/or devices, or will not inform the Gendarmerie the impossibility of providing a remote solution in the term indicated in the terms indicated in the seventh article of the present contract a fine equivalent to \$ 60,000.- (sixty thousand pesos) will be applied, whenever the technical support is not attended or made, the impossibility of remote solution is not reported, or the support officer is not available in the active Monitoring Center, without prior approval of the Head of the Monitoring Center.

FINES RELATED TO CAPACITATION.

In the event that the contractor presents a breach in the execution of the planning of training in the service, a fine equivalent to \$ 120,000.- (one hundred twenty thousand pesos) will be applied, for each day of delay in its execution.

FINES RELATING TO THE UPDATING MAPS.

In the event that the contractor fails to update the maps provided within the terms referred to in Exempt Resolution No. 634 of January 22, 2016, a fine equivalent to \$ 1,000,000 will be applied (one million pesos), for each day of delay in the execution of the update.

FINES RELATED TO MANUALS.

In the event that the contractor presents a breach in the delivery of manuals, a fine equivalent to \$ 120,000. - (one hundred twenty thousand pesos) will be applied for each day of delay with respect to the delivery date indicated in the gannt letter of the awarded bid.

FINES REGARDING THE REGIONAL MONITORING SUPPORT CENTER.

In the event that the contractor presents a breach in the operational delivery of the Regional Support Center when required, a fine equivalent to \$ 73,000,000. (Seventy three million pesos) will be applied for each day of delay.

FINES RELATED TO BACKING OF CALL REGISTRATION SYSTEM.

In the event that the contractor files a non-compliance in the storage of backup files of the call register system, a fine equivalent to \$ 300,000. - (three hundred thousand pesos) will be applied for each record not backed up.

FINES RELATED TO SATELLITE TELEPHONES.

In the event that the contractor presents a fault or malfunction in the maintenance of satellite telephones, which does not allow communication (3 consecutive failed attempts to communicate), or no available balance, a fine equivalent to \$ 73,000,000 will be applied. (seventy three million pesos) for each team that fails or does not have available balance.

ELEVENTH: TERM OF CONTRACT

NORMAL TERMINATION.

The normal term of the contract will take place during the period of its duration, according to what is established in the sixth article of the present contract.

EARLY TERMINATION.

The respective contract may be terminated in advance if any of the causes or circumstances provided for in article 13 of the Procurement Law or article 77 of the Regulations are verified, namely:

1. Resilience or mutual agreement of the contracting parties.
2. Serious breach of the obligations contracted by the contractor. They will be considered as:
 - a) Complete unavailability of the system for more than 12 (twelve) continuous hours more than 6 (six) times in a semester, not attributable to fortuitous events or natural catastrophes.
 - b) Unavailability to visualize more than 30% of those convicted for more than 24 hours more than 6 (six) times, in a calendar year, not attributable to fortuitous events or natural catastrophes.
 - c) Unavailability of the system to visualize a convicted person for more than 24 hours continuously for more than 36 times in a semester not attributable to fortuitous events, natural catastrophes or improper manipulation by the condemned of the monitoring device.
3. State of notorious insolvency or bankruptcy of the contractor, unless the bonds delivered are improved or existing ones are sufficient to guarantee compliance with the contract.
4. As demanded by the public interest or national security.
5. For recording unpaid balances of social security payments or contributions with their current employees or with workers hired during the term of this contract, without certifying that all of the obligations are settled in the middle of the contract execution period, with a maximum of six months or; in case of registering repeated unfulfillment.
6. The others that are established in this contract.

When the technical counterpart detects a fact constituting an infringement that gives rise to the anticipated termination of the convention, it will promptly communicate said situation to the contractor in writing, who will have a period of 5 days to make their disclaimers.

In these discharges, the contractor may assert all the rights that Law N° 19.880 recognizes as an interested party in an administrative procedure, being able, by way of example, to propose the actions or procedures that it deems necessary, as well as requesting or accompanying the means of proof that it deems convenient.

The technical counterpart will have the quality of “instructor” in the administrative procedure that is developed, being able to order the opening of a trial period, in order to practice as many evidentiary procedures as it deems pertinent.

Once the instruction of the procedure has concluded, or the deadline for receiving the discharges has expired without having been sent, a report will be issued by the technical counterpart in which the anticipated term of the contract may be proposed to the National Director of the Gendarmerie of Chile, which will be specified by the resolution based on this authority, will be notified by a certified letter, addressed to the domicile of the contractor, without the need for a judicial request.

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The notification shall be understood to be made on the third day following the entry of the respective letter at the post office. The contractor may claim this act through the resources and within the terms established by current legislation.

In case of early termination of the contract, this will be understood as completed within the term indicated by the administrative act that terminates it, a term that will be counted from the notification to the contractor of its total processing.

If the termination of the contract causes harm to the Gendarmerie of Chile, the latter may exercise the corresponding compensatory actions without prejudice to the collection of the guarantee of faithful and timely performance of the contract, if it corresponds because of proven causes attributable to the contractor itself.

The above procedure does not apply to the rescission or mutual agreement of the parties.

The contractual and extracontractual liability of the contractor shall be governed by everything not established in this clause by the Civil Code regulations. The procedure indicated for the case of early termination does not apply to the mutual agreement or rescission of the parties.

TWELFTH: INTELLECTUAL PROPERTY OF THE DOCUMENTS OR BACKGROUNDS DELIVERED TO GENDARMERÍA IN REASON OF THE CONTRACT, WHATEVER THE FORMAT IS, WILL BELONG TO THIS.

The result of the work eventually developed by the Company or its dependent on the occasion of the contract. Which are products, diagnosis, design, report, manuals, and, generally, every work that it will be elaborated according to the achievement of the respective convened contract, will be property of Gendarmerie of Chile, which reserve the right of have available of them freely, without any kind of limitation. And the company cannot make any act about that external to the contract, without previous and express authorization of Gendarmerie

THIRTEENTH: OBLIGATION OF CONFIDENTIALITY ACCORDING ALL THE INFORMATION THAT THE COMPANY HAVE ACCES IN COMPLIANCE WITH THE CONTRACT.

According to the nature of the obligation of the current contract, the Company will keep confidentially of every antecedents known due to the execution of the same, and cannot make use of this for any purpose exempt to the bases. Likewise, any no circumstance, could, for any title or way, reveal, spread, publish, sell, give, copy, play, interfere, intercept, modify, damage, make useless, destroy, every or part of the information, either the under the contract or after of his termination.

This prohibition will affect to the Enterprise, his direct and indirect staff, its consultants, outsourcing and its own staff, of any kind, which find connected to the contract in any of his stages, and his responsibility will be supporting, even after the termination of the same.

In any case of unfulfillment of this clause, gendarmerie could terminate beforehand the contract, according to the specified in the current contract, being authorize to collect the warranty form of the faithful observance of the contract, without prejudice of starts the corresponding legal actions.

FOURTEENTH: MODIFICATIONS TO THE CONTRACT-

Gendarmerie, in order to incorporate advances that functionality and technology make advisable, due to regulatory requirements, force majeure or situations imposed by the market, may request changes during the development of the contract.

Likewise, Gendarmer's reserves the right, for reasons of convenience of the service, to order during the execution thereof, to make increases or decreases in the activities involved, provided they are duly justified.

The additional costs generated by the increases of the activities involved according to any of the preceding paragraphs, shall be agreed between the parties at the time of requesting the previously mention increase.

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In the cases indicated, if appropriate, the contractor must complement or deliver a new Guarantee of a faithful fulfillment of the contract, as appropriate.

The agreed modifications will not be able to alter the total contract price by more than 30% (thirty percent). Said modifications must be approved by means of the corresponding administrative act and the contractor will be obliged to maintain the unit prices per item established in the bidder.

FIFTEENTH: PROPERTY OF EQUIPMENT SYSTEMS AND DEVICES

All the components of licenses and software of the Telematic Monitoring System that the contractor develops specifically for the Telematic Monitoring Service of the Condemned, object of this contract, will become property of the Gendarmerie, from the effective date of the contract, and the contractor will not You can use them in another context, or transfer them to third parties without their authorization.

Notwithstanding the foregoing, it is recorded that the software used by the Company to provide the Telematic Monitoring Service under this contract is the property of Track Group Inc., which may only be used for said purposes for the duration of the present contract, being the Company the only one authorized to operate it under the conditions indicated above.

All the enabling equipment of the Monitoring Center and the Regional Support Center, including, among others, the wiring of local networks, gutters, as well as all the documentation, tapes and other magnetic storage and / or backup media that are generated during the validity of the contract for purposes of the "maintenance obligations of equipment" of the contractor, is owned by Gendarmerie.

It is forbidden to the Contractor, under any circumstance and form, to seize, extract or retain any type of information related to the services offered and contracted, including the information systems, documentation and data.

SIXTEENTH: SUBCONTRACTING-

The Contractor shall provide the indicated services with its own personnel. However, regarding those services that due to the nature of the benefits required by the Gendarmerie must be subcontracted, and provided that the providers of said services are communicated and accepted by the Chilean Gendarmerie, they may be subcontracted with said providers. Notwithstanding the foregoing, any change in said suppliers, as well as additional subcontracting, must have prior express written authorization from the Gendarmerie, through its Technical Counterpart.

The contractor, as the case may be, must submit a sworn statement issued by the legal representative of each of its subcontractors, stating that the subcontractor or any of its partners or administrators is not affected by any of the grounds of inability and incompatibility established in Article 92 of the Regulation of Law No. 19.886.

In any case, it will be the contractor, or its legal continuator, the only responsible before the Gendarmerie of the full and timely fulfillment of the contracted services.

SEVENTEENTH: SUPERVISION AND AUDIT

The Gendarmerie, during the validity of the contract, on the dates and in the forms it deems appropriate, will be empowered to carry out, directly or through third parties, its supervision, control and extensive audit.

The contractor or its subcontractors must grant all the facilities for the execution of said supervision, control and audit. The supervisions, controls and audits may be extended to those areas related to the scope of the contract and to those that, if not, are necessary to properly satisfy the former, without prejudice to the legal powers that the General Comptroller of the Republic has in this regard.

EIGHTEENTH: RIGHT TO VETO-

Gendarmerie will have the right to veto or ban any contractor's personnel and their subcontractors, with an expression of cause or when the intervention of said persons hinders or hinders the execution of the project. In all these cases, the contractor must replace the vetoed personnel or subcontractor within 5 business days following notification of the veto by the Technical Counterpart.

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Gendarmerie reserves the right to request from the contractor, when deemed appropriate, the nature of the contracted service, information of its own personnel or its subcontractors regarding: full name, identity card number and a written authorization from the employee to verify their information. The failure to deliver the requested information within 72 hours required, will entitle Gendarmerie to exercise, without expression of cause, the right of veto referred to in this article with respect to personnel whose data were not delivered.

NINETEENTH: INSURANCE.

It will be the responsibility of the contractor, during the entire term of the contract, to hire at its cost, insurance to cover risks that may affect the equipment and devices included in the Telematic Monitoring of Convicts Service provided by the latter. The insurances must protect against all covered risks, including natural catastrophes and malicious or terrorist acts. The contractor must submit to the Gendarmerie consideration, insurance contracts before its conclusion. The Gendarmerie will be authorized to reject the insurance and demand another contract, if it considers that the conditions presented do not grant a full coverage in the terms indicated here. Likewise, during the implementation phase of the contracted service, the supplier company must have all the insurance necessary to safeguard the property of the Gendarmerie against damages that could occur in goods and people resulting from the installation of the system.

The contractor shall accredit before the Gendarmerie the fulfillment of the previous obligation, by means of a certificate of the insurer in which the contracted insurances are recorded and an authorized copy of the policies, before the start of the operation of the contracted service, for the purposes of its reception. Likewise, during the term of the contract, the contractor must accompany said certification, in case it is necessary to renew or extend the contracted policies.

In case the contractor does not take these insurances or does not renew or expand them in a timely manner, the Gendarmerie may do so on behalf of the contractor, but without any responsibility for the Service if it does not do so. The Gendarmerie will be authorized to deduct from the amount of any of the monthly invoices that it must pay the contractor, the price of the premiums that it has paid, duly readjusted if it is appropriate, thus reimbursing its value and the corresponding readjustments.

TWENTIETH: GUARANTEE OF PROPERTY

The Contractor shall guarantee that all goods that must be provided by the contracting party as a result of spare parts due to failure or obsolescence are new and unused, with a production not exceeding 1 year. In turn, the contractor must ensure that all goods are free from defects attributable to the design, manufacture, materials, or any act or omission of the manufacturer that may occur during the normal use of the goods under the conditions in which they are usually used.

It is expressly excluded from the aforementioned guarantee, the telematic monitoring devices in current use and domain of the Company, for the control of substitute penalties by the Gendarmerie of Chile. In case of discontinuity of any of these goods, object of the service contracted during the term of the same and in case of failure and/or obsolescence the contractor shall provide goods of similar characteristics, which shall be subject to the same guarantee established in paragraph previous should be compatible with the service provided and authorized by the technical counterpart of Gendarmerie. It is recorded that the previous authorization will be deemed granted if, on the third day of the request, the Gendarmerie has not ruled in its respect and that the obsolescence of the goods must be previously certified by the maintenance and technical operation provider of the Telematic Monitoring Center.

For purposes of determining the degree of obsolescence of computer equipment, it will not be the technological conventions commonly accepted in the matter, which require a periodic renewal of this type of equipment even in full operation, but will examine the ability to satisfy functionality pursued by the equipment optimally.

The guarantee will consider the immediate change or repair of the goods in the place where they will be and will operate throughout the validity of the respective contract.

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TWENTY-FIRST: LICENSES AND SOFTWARE UPDATE.

All programs and softwares delivered by the contractor must have valid licenses for their use, which will be exclusively their responsibility. If necessary, the contractor must be adding, at his expense, the corresponding licenses, to ensure the normal operation of the systems.

All upgrades and/or replacements of software must be carried out with the approval of gendarmerie

TWENTY SECOND: EXEMPTION FROM RESPONSIBILITY-

The Gendarmerie of Chile will not have any labor or legal relationship with the employees that work for the contractor and subcontractors. Consequently, it will not be responsible for remuneration, taxes, social security contributions, insurance against work accidents or damages to third parties; all of which shall be the exclusive responsibility and responsibility of the contractor and subcontractors. The foregoing is without prejudice to the responsibility that may assist you, by virtue of the provisions of the Labor Code.

TWENTY-THIRD: PROHIBITION OF ASSIGNMENT-

The contractor may not assign or transfer in any form, in whole or in part, the rights and obligations arising from this contract, except in the case of merger, absorption or division of the contractor, a situation in which the obligations will be transferred to its legal continuator, under the same conditions established in the contract.

In these cases, the contractor must inform the Gendarmerie, at least 3 months before its formalization, regarding the decision of merger, absorption or division.

The foregoing is without prejudice to the fact that the documents justifying the credits arising from these contracts can be transferred, according to the rules of the common law.

TWENTY-FOURTH: FINALIZATION OF THE SERVICE AND MIGRATION OF THE OPERATION OF THE TELEMATIC MONITORED SYSTEM TO THE NEW AWARD-WINNING COMPANY, PRIOR TERM OF CONTRACT.

The Gendarmerie will have a term of six months, after the termination of the telematic monitoring service contract, to return to the Company all those monitoring devices that were installed before the new contractor came into operation, without this process of return. It is considered that one of the benefits established in the fifth clause is executed.

Obligations at the end of the contract.

Availability to develop migration process.

With the objective of guaranteeing the full operation and continuity of the service, regardless of the Company that supports it in the future, the Company must make available to the Gendarmerie the technical documentation that details the format and order in which the devices they send the data of coordinates or any other relevant information, in order to guarantee the recognition of the new localization devices by the software of the system. For example, indicate if TCP or UDR is used, the sockets ports used the order in which it sends the coordinates and other parameters, the encryption of that data, etc.

Likewise from the beginning of the sixth month of the contract, the Company must adjust the fulfillment of each of its contractual obligations to the requirements that the Gendarmerie of Chile formulated in order to allow the development of the milestones contemplated for the installation of the incoming supplier company, whichever it may be, that has been decreed by the Gendarmerie of Chile as the successful bidder that provides continuity to the Telematic Monitoring Service, which may begin to operate only once this contract has completed the initial 365 days.

TWENTY-FIFTH: JURISDICTION.

Any controversy that arises from the signing of the contract and during the validity of it until its completion and complete settlement, will be known by the Ordinary Courts of Justice of Santiago, without prejudice of the attributions that correspond to the General Comptroller of the Republic

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TWENTY-SIXTH: THE FOLLOWING DOCUMENTS AND OFFICIAL BACKGROUND OF THE SERVICE ARE FORMED PART OF THIS AGREEMENT, WHICH ARE EXPRESSLY REPRESENTED

-Technical contract annex through direct treatment of the telematic monitoring service of convicts authorized by means of the procedure resolution No. 321 of October 17, 2017.

-Technical annexes: Flows processes associated with the Telematic monitoring service.

TWENTY SEVENTH: DEFINED TERMS-

All capitalized terms used in this instrument, and which have not been defined therein, shall have the respective meaning given to them by the Chilean Gendarmerie, without prejudice to the fact that in case of controversy the parties will be in normal use given him in the contractual execution.

TWENTY-EIGHT: APPLICABLE NORMS-

The provisions of Law No. 19.886, of Bases on Administrative Contracts of Supply and Provision of Services, dated July 30, 2003 and their respective Regulations, contained in Finance Decree No. 250, dated 24, will be applicable to this contract. September 2004. As provided in Law No. 19,880, which establishes the Bases of Administrative Procedures that govern the Acts of the Bodies of the State Administration.

TWENTY-NINTH: OF THE PERSONNERS-

The legal identity of the National Director of the Gendarmerie of Chile, Mr. Jaime David Rojas Flores, is included in Supreme Decree No. 578, dated July 15, 2016, of the Ministry of Justice and Human Rights. On the other hand, the legal identity of Mr. Diego Peralta to sign on behalf of Track Group Chile SpA, consists of the power granted on April 8, 2016 before the Santiago notary of Mr. Roberto Antonio Cifuentes Allel, under report No. 3,017 / 2016

National Director of gendarmerie of Chile

Mr. Jaime Rojas Flores

C.I N° 9.155.944-7

Legal Representative of the Company

Mr. Diego Peralta Valenzuela

C.I N° 5.009.310-7

Technical Annex of the service contract for the telematic monitoring of condemned by resolution procedure N ° 321

I. - Introduction.

The Gendarmerie of Chile, henceforth and indistinctly "Gendarmerie", "the Service", "the Bidder" or the "Institution", is a Public Service dependent on the Ministry of Justice, whose purpose is to attend, monitor and contribute to social reintegration of persons who, by resolution of competent authorities, are detained or deprived of their liberty and perform the other functions prescribed by law. In this context, DL N ° 2.859, of 1979, of the Ministry of Justice, which establishes the Organic Law of this Service, establishes in its article 3, letter g), as one of its functions, "to assist in the free media" to the people who access it because they are serving sentences or for other legal reasons, under the conditions set forth in the regulations. "That work is based in its Technical Sub-Directorate, according to the article 8 of the aforementioned Organic Law.

In turn, by Resolution No. 7,125 of 2012, of the Gendarmerie of Chile, the Department of Telematic Monitoring was created under the Technical Subdirectorate, whose function is to develop all those activities related to the administration of the telematic monitoring device for the control of the substitute seclusion established in Law 18,216, modified by Law No. 20,603.

II. - Objectives of the project.

General purpose.

Perform the supervision by technological means of the sentences of partial seclusion, mixed sentence or intensive probation, in the cases and under the conditions established by Law No. 18,216 and its regulations, contained in Decree No. 1,120, of the Ministry of Justice, of 1984, and safeguard the personal safety of those who are victims of certain crimes.

To specify this general objective, it is necessary to comply with the specific objectives that are indicated below.

Specific objectives.

- a) Automate the levels of control of convicted persons who are serving their sentence in the free environment, providing an efficient telematic monitoring system in accordance with the law.
- b) Increase the security and protection of victims of crimes committed by convicted persons who are serving their sentence in the free environment, in the cases provided for in Law No. 18,216.
- c) Strengthen the elaboration, analysis and systematization of information in relation to the behavior of the convicted person, which allows greater feedback with the delegates of intense probation.

III.- Precedent.

In 1983, Law No. 18.216 established a system of alternative measures, which allowed the person sentenced to a prison sentence to serve such sentence at liberty, subject to administrative control of greater or lesser intensity.

Considering the need to strengthen citizen security, the aforementioned Law No. 18.216 has been modified, in order to provide intelligent and diversified responses to the phenomenon of crime.

Law No.20.603, seeks to strengthen the system of alternatives to prison and transform it into a sanction mechanism, which operates effectively and effectively in the control of first-time delinquency, avoiding criminal recidivism.

This modification seeks that the one who has been subject to a penalty that is a substitute for a prison sentence, effectively and satisfactorily comply with the sanction imposed, making this system a control model similar to the prison, in terms of its actual control about the population subject to it. For this purpose, article 23 quater of Law No. 18.216, refers the determination of the technical characteristics of the equipment to a regulation on telematic monitoring. Convicted persons will know that they are effectively being controlled, so that any action that violates the sanction regime imposed, will be detected and informed to the court so that it adopts the pertinent measures, being able to revoke this sentence.

In this way, it is necessary to give continuity to the telematic monitoring service with the technical characteristics that are detailed in this technical annex.

IV.- Justification.

As indicated above, the amendment to Law No. 18,216 seeks to strengthen the control that currently exists in the enforcement of sentences in freedom.

The possibility of controlling the condemned through telematic monitoring is contemplated in the case that the convicted person is sentenced to the sentences of partial imprisonment, mixed sentence and intensive supervised release. This last penalty is provided for those persons convicted of certain crimes that constitute acts of domestic violence or sexual crimes. Additionally, the possibility is considered that the victim may access a telematic monitoring system, in order to be able to contact her, in case the condemned person is close to her.

Gendarmerie will be responsible for the administration of the telematic monitoring system, being able to contract external services in accordance with Law No. 19.886, of Bases on Administrative Contracts of Supply and Provision of Services, in accordance with the provisions of article 23 quater of the Law No. 18,216.

The following describes the substitute sentence whose compliance will be monitored remotely.

V. - Application of telematic monitoring for the condemned.

1. Partial seclusion

Explanation

According to article 7 of Law No. 18.216, the partial confinement consists of confinement in the domicile of the convicted person or in special establishments, for 56 hours a week. The partial seclusion can be day, night or weekend, according to the following criteria:

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a. - The partial day custody will consist of the confinement in the domicile of the condemned, during a period of 8 daily hours and continuous, which will be set between 8 and 22 hours.

b. - The nocturnal partial confinement will consist of the confinement in the domicile or in special establishments, between the 22 hours of each day and the 6 hours of the following day.

c.- The weekend partial confinement will consist of the confinement in the domicile of the condemned or in special establishments, between the 22 hours of the Friday and the 6 hours of the following Monday.

For the fulfillment of the partial seclusion, the judge will prefer to order his execution in the domicile of the condemned, establishing as a mechanism of control of the same, the telematic monitoring system.

The partial seclusion may be arranged (Article 8):

a. - If the deprivation or restriction of liberty imposed by the sentence does not exceed three years.

b.- If the convicted person has not previously been convicted of a crime or a simple offense, or has been sentenced to a deprivation or restriction of liberty that does not exceed two years, or more than one, provided that in total they do not exceed said limit .

c.- If there are employment, educational or other similar backgrounds that justify the penalty, as well as if the personal history of the convicted person, his conduct before and after the punishable act and the nature, modalities and motives determining the crime, allow presuming that the penalty of partial imprisonment will dissuade him from committing new crimes.

Considering the purposes of this penalty, the control by telematic monitoring must ensure supervision that the convicted person does not leave the domicile during the time period set by the court.

2. Intensified probation for sexual crimes and domestic violence.

Explanation.

The intensive supervised release consists of the application of a program of activities, aimed at the social reintegration of the condemned, in the personal, community and labor, through a treatment under the application of certain special conditions, which will be monitored and oriented, both permanently and rigorously, by a delegate, as indicated in article 15 bis of the law in question.

Those sentenced to the penalty of intensive probation for sexual crimes or crimes committed in the context of domestic violence, whose sentences are longer than 540 days and equal to or less than 5 years, will be monitored remotely to ensure compliance with the following conditions that the penalty be associated:

a. - Prohibition to go to certain places.

b. - Prohibition to approach the victim or his relatives or other persons determined by the court, or to communicate with them.

c. - Obligation to remain in the domicile or place determined by the judge, during a maximum period of 8 hours per day, which must be continuous.

The conditions indicated above are those that must be controlled through the Telematic Monitoring System. The first two refer to exclusions, because the convicted person can not access the places or the person of the victim. The third condition is similar to the control established for partial seclusion.

3. Mixed sentences.

Explanation.

This sentence consists in the possibility that those sentenced to custodial sentences equal to or less than 5 years and 1 day have the right to substitute their prison sentence for the one of intensive probation, under the control of telematic monitoring, if the following requirements are met. :

- a. - Which the sentence imposed on the convicted person was 5 years and 1 day of imprisonment in its minimum degree, or another less sentence.
- b. - That, when discussing the interruption of the custodial sentence, the convicted person does not register another conviction for crime or simple crime.
- c. - That records outstanding behavior (good or very good behavior).
- d. - That, after the sentence is enforceable, he would have fulfilled one third of the custodial sentence.

VI. - Application of telematic monitoring for the victim.

Law No. 18.216 contemplates the possibility that the victim may also make use of this technology in the case of sexual crimes and domestic violence. Indeed, article 23 bis of Law No. 18.216 states that telematic monitoring will be applied, given the circumstances in which the crime was committed and, especially, the victim's protection needs, and that he must give his consent in a previous way.

The objective is that the victim can be warned in a timely manner that the convicted person is failing to comply with the condition of not approaching her and allowing, if necessary, the police to act in order to protect her personal safety.

VII. - Definitions and Glossary of terms.

For the purposes of this annex, and without prejudice to other definitions contained in the contract, the following definitions shall apply:

- a. Warnings: information that the telematic monitoring system reports in a situation that requires priority attention. They will be classified as follows:
 - i) Notices: warnings that prevent a technical incident that affects any of the components of the system and may cause the total or partial cessation of the functioning of the telematic monitoring mechanism or the loss of coverage of the location system.
 - ii) Pre-alarms: warnings that realize that a person sentenced to intensive probation is close to an area of exclusion.
 - iii) Alarms: warnings that account for the breach of the obligation of partial seclusion contemplated in article 7 of Law No. 18,216, or any of the conditions indicated in letters a), b) and c) of article 17 ter of Law N ° 18.216, and that have been imposed in the judicial resolution that imposes the substitute sentence.
- b. High availability: operation 24 hours a day, every day of the year, of the telematic monitoring service, including recovery from natural disasters and events of force majeure and / or fortuitous event, without prejudice to the provisions of point 1.1, letter h), of section IX "Requirements of the technical offer", of this Technical Annex.
- c. APN or Access Point Name: name of an access point for GPRS that must be configured on the mobile device (either a mobile phone or a 3G MODEM) so that it can access computer networks.
- d. Exclusion area: geographical space to which the convicted person is prohibited from access by judicial decision.

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- e. Pre-exclusion area: geographical space close to an exclusion zone, determined by the Gendarmerie, for the purpose of applying preventive actions to the possibility of non-compliance with the penalty.
- f. Inclusion area: geographical space in which the convicted person is obliged to remain for a certain number of hours determined by judicial decision.
- g. Monitoring Center (CM): place where the monitoring room will be located, which will allow the follow-up of the condemned, 24 hours a day, every day of the year, through monitoring on visualization screens or another perceptible interface, which must be generated the necessary communications with the sentenced person, the victim and / or the corresponding institutions, in case of generation of warnings, leaving a record of the events that follow.
- h. Regional Monitoring Support Center (CRRM): place where a passive monitoring center will be located, which will have the same computing and telecommunications functionalities of the Monitoring Center.
- i. Active Monitoring Center: center in permanent operation that has control of monitoring operations.
- j. Passive Monitoring Center: center that is inactive and prepared as a backup in the event that the Monitoring Center, which is active, suffers an interruption of its functions due to a catastrophe or force majeure problems.
- k. Bidirectional communication: communication, between the Monitoring Center or the Regional Monitoring Support Center and the convicted person and / or the victim, when appropriate, and can be initiated by any of them, according to what is indicated in number 2.1, letter k) , of section IX of this Technical Annex.
- l. Data center or Communications Room: place where hardware and software equipment destined for processing and databases will be located, in a network architecture of high availability, which ensures the supervision of the condemned and / or the victim.
- m. System Availability: state in which the system is able to monitor all the installed hardware and software functionalities and the necessary telecommunications for it.
- n. Telematic monitoring device or mechanism: device (s) that, in conjunction with the monitoring system, allows locating a specific person.
- o. Contractor, supplier, or "contractor" company: company or person in charge of providing the operation, maintenance and technical support of the contracted telematic monitoring service.
- p. -GPRS (General Packet Radio Service): extension of the Global System for Mobile Communications (Global System for Mobile Communications or GSM) for the transmission of data by packets.
- q. -Failure to comply with the penalty: transgression, by the convicted person, of the limits and / or conditions imposed in the judgment that established the use of a telematic monitoring system, declared by judicial resolution.
- r. - IPSEC (Internet Protocol Security): a set of protocols whose function is to ensure communications over the Internet Protocol (IP), authenticating and/or encrypting each IP packet in a data flow.
- s. - Technical feasibility certificate: document generated by the Company that gives an account of the status of the technical conditions to monitor the convicted person and / or the victim.
- t. - Corrective maintenance: services associated with the operation of the telematic monitoring service regarding the solution of faults in hardware, software and any equipment that is provided by the supplier company. These services will be applied after the detection of a fault.
- u. - Preventive maintenance: services associated with the prevention of potential failures in hardware, software and all telematic monitoring service equipment that is provided by the contractor company.

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- v. - Manuals of system operations: administrative and technical instructions, in Spanish, through which the telematic monitoring system can be operated.
- w. - Manual of resolution of problems: instruction with detailed technical procedures to solve, in a fast way, the problems of malfunction that could present the telematic monitoring system, without prejudice of the responsibility of the contractor in the resolution of the same.
- y. - Manipulations: any attempt of undue administration, attempt to discard it, opening of the box containing the receiver, physical damage to the equipment and improper removal of the device or tracking unit, which does not allow the optimal functioning of the monitoring service telematic
- z. MPBN: Mobile Packet Backbone Network.
- a'.- MPLS (Multiprotocol Label Switching): standard data transport mechanism, created by the IETF and defined in RFC 3031.
- b'.- L2TP: Layer 2 Tunneling Protocol.
- c. Operators of the telematic monitoring system: Gendarmerie officials in charge of supervising convicts and / or victims subjected to telematic monitoring, observing surveillance screens or other perceptible interface, and communicating with the victim, convicted and / or the corresponding institutions, in case of generation of warnings.
- d'.- Work order: Gendarmerie request to the winning company to proceed to perform the work in the system, among others: install, remove, support and / or replace the monitoring devices.
- g'.- Operators room: physical place where the operators will supervise the surveillance screens in the Monitoring Center.
- h'.- Equipment and telecommunications room: enclosure for the installation and exclusive use of computer racks, electrical panels of these equipment and exclusive security system located within the Monitoring Center.
- i'.- Monitoring system: set of software applications that process the information delivered by the monitoring devices.
- k'.- Remote user: user who accesses the monitoring system from a physical location other than the operator room.
- l'.- User viewer: who can only observe what happens in the system, but can not modify information, files or parameters of the monitoring system, or activate features.
- m'.- Operative user: the one who will be able to observe what happens in the monitoring system, being able to use or operate the functionalities of the system.
- n'.- Super administrator user: who can create and delete users, as well as being able to access and edit any file or variable allowed in the monitoring system.

VIII. - General description of the project to be offered.

To deliver the telematic monitoring service, the offeror must provide the technology, necessary hardware, equipment, licenses and data link to perform the functions of telematic monitoring, 24 hours, every day of the year, on the real-time location of the convicted and / or the victim within the entire national territory.

The technology to be used by the offeror for the types of sentences of partial seclusion, intensive probation and mixed sentence may be different from each other, for example, "radiofrequency" (RF) and / or the use of GPS technology. The offeror may propose the combination of technologies that best meet the requirements of these Terms and Conditions.

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For purposes of the telematic monitoring service to be proposed, the offeror must consider that the Telematic Monitoring Department will be composed of:

- Monitoring Center (active) at Rosas Street No. 1,274, second floor, Santiago, Metropolitan Region.
- Regional Monitoring Support Center (passive) in Prat Street No. 255, Office 402, La Serena, IV Region.

IX.-Requirements of the technical offer.

The Company must consider the following essential requirements to define the technological solution in the provision of the service:

In turn, any reference to "Monitoring Center" shall be understood to be made both to the Monitoring Center located in Santiago, and to the Regional Monitoring Support Center, unless otherwise indicated or specified the opposite.

1. Telematic Monitoring Service.

1.1. Monitoring system.

The System must contemplate, as a minimum, the following:

- a) Be able to identify, in real time, the place where the convicted person is, establishing the opportune mechanisms of warnings that allow detecting the transfer or breach of the limits established by the judicial authority.
- b) Providing, in a continuous and reliable manner, accurate information about the location -in coordinates, within the Chilean geography-, where the convicted person is in the case of intensive supervised release, or his / her condition (presence or absence at home), in the case of partial seclusion.
- c) Have the necessary mechanisms to detect and notify attempts to defraud or falsify the aforementioned information.
- d) Warn when the convicted person is about to cross an inclusion zone, or to enter an exclusion zone, set judicially.
- e) Communicate immediately the incidents that, in the sense indicated in the previous letters, occur; likewise, to communicate the warnings to the competent personnel for the control of the condemned, as to all the persons considered appropriate, by any means of communication of the system.
- f) The system must be in a website, allowing remote users authorized by the Gendarmerie, to access the location information of the convicted person and / or the victim.
- g) The Company must make available the network architecture of the telematic monitoring system and, in particular, detail the connectivity parameters at the network level of the different stages that make up the solution and the computer security aspects, such as, for example, rules and access filters at the level of firewalls that will protect the system from intruders and attacks. You must provide the necessary hardware and software for it. In addition, it must include the necessary means for the tasks of backup and recovery of the system.
- h) The solution must allow an operation of the uninterrupted system 24 hours a day, every day of the year. Mechanisms should be considered to ensure the operational continuity of the service, which should be described in the topology of the system. To ensure this high availability, the architecture must contain as many redundant elements as necessary, both at the software and hardware level (power supplies, fans, mirrored arrays of disks, data links, etc.).
- i) The system must be able to comfortably manage a capacity of 10,000 monitored users simultaneously. It is understood by "comfortably" that the resources of processing, memory and data storage are under 70% utilization.

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- j) The software must be configurable, allowing administrators to modify the status of warnings generated by the devices.
- k) The interface of the software system must be in Spanish.
- l) Software applications should allow the hierarchy of user levels and management, through at least the following profiles:
 - Operator user
 - Super administrator user
- m) It must generate work orders, administer and schedule the installations, etc., in order to coordinate the installation, removal and technical support activities of the devices.
- n) Must allow to manage all events that occur, in order to keep track of them and be able to make statistics on the information generated from monitoring, accessing all the variables delivered by the system.
- o) It must allow the administrative management of the monitoring service. This tool must be able to handle accounting aspects regarding facilities, uninstallations, and replacements, such as the operation of the Monitoring Center itself
- p) The system must give full support to all the functionalities that are derived from the process diagrams, according to the technical annexes explaining the process flows associated with the telematic monitoring system.
- q) The system must offer, within its functionalities, the creation of dynamic reports, according to the needs of the Service, including:
 - q.1) Statistical Reports.
 - Event log: summary report with what happened during the previous night, indicating the warnings (pre-alarms and alarms) produced. All this must be indicated with the time of occurrence, convicted involved and victim (if applicable).
 - Summary of convicts who registered warnings, separated according to the type of sentence (Partial seclusion or Intensive probation).
 - Convicted in valid status in the system.
 - Convicted who registered alerts.
 - Individual report of convicts subject to night detention, who must detail the time of entry, time of departure and alerts.
 - Individual report of convicts with monitoring in exclusion zones, which should include surveillance route and alerts.

In addition, the reports should include bar, line and circular graphics, with individual and aggregate data. The report should be able to be exported to standard formats, such as Excel, PDF, Word, etc.

q.2) Administrative reports

As indicated above, the system should allow the extraction of reports of an administrative nature, such as:

- a) List of made installations.

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- b) List of made uninstallations.
- c) List of monthly visits of preventive and corrective maintenance, made to the Monitoring Center.
- d) List of relevant warnings of the period.
- e) List of training services developed.
- f) List of other relevant activities not contained in the foregoing and that are part of the obligations established in these Terms and Conditions.
- g) Devices in validity status in the system.

The functionalities indicated in letters m), n) and o) above, should be able to be operated by both Monitoring Centers and by the Social Rehabilitation Centers of the country.

The Company must develop applications that aim to improve processes and interoperate with other computer systems, corporate or external, in case the Gendarmerie requests it for better functioning of the telematic monitoring service.

1.2. - Service coverage.

It corresponds to the percentage of the national territory covered by the cellular mobile data network, with mapping, at the level of street names and number of addresses. It is required that the offer contemplates, independent of the percentage, coverage in all the cities of the country (currently 346).

The Company must present a detail of the coverage offered on the national territory. To do this, it must submit a list classified by region, province and communes to be covered. In addition, it must submit a map by region of Chile (including Insular Chile), identifying by color the areas of coverage offered and areas without coverage. In this one, it must be indicated if the lack of coverage corresponds to the lack of mobile data network in said area and/or to the non-mapping at the level of names of streets with numbering of addresses. The Company must deliver maps of the coverage committed in image format and, in addition, in a digital file, to be visualized in Google Earth in KML and KMZ formats.

1.3. - Maps.

The Company must present a map solution with cartographic survey at the numbering and street names level, which includes, at least, the following types of relevant places (layers):

- College, schools, kindergartens and nurseries.
- Hospitals and clinics.
- Police (a.k.a Carabineros) and Investigations Police.
- Shopping centers, supermarkets, stadiums, churches, squares and parks.
- Relevant public entities such as municipalities, public offices, etc.

The Company must detail the information given by the map in relation to the relevant places indicated in this point. To do this, it must indicate the ability to customize the maps, specifying the layers that can be superimposed on the maps that identify certain places. In addition to the foregoing, the Company must commit a frequency of updating the maps provided for the monitoring system with a periodicity of six months or less, specifically updating the cartographic survey at the level of numbering and names of streets, and those municipalities that still do not have that level of details, having as an objective to cover all the communes of the national territory. In addition, it must update with the same frequency the information of the aforementioned layers.

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1.4. - Level of service committed to the availability of the monitoring system.

It corresponds to the percentage of minutes available per year of the solution committed by the Company, that is, the state in which the system is able to monitor all the installed hardware and software functionalities, including the necessary telecommunications. The remaining minutes of non-availability (difference between 100% and the percentage of availability) will be considered as minutes per year destined for scheduled work for maintenance and updating of the system, in which an interruption of the monitoring service is required.

The Company must present a solution with an availability of at least 99.7% of the minutes available per year. This implies that on a monthly basis, the supplier company can not accumulate more than 120 minutes devoted to programmed work that implies unavailability of the monitoring service. Each scheduled work must mean less than 15 continuous minutes of unavailability of the monitoring system. Scheduled works must be authorized by the Gendarmerie and carried out preferably during the maintenance window schedule. The maintenance window should go from 3:00 PM to 8:00 PM. The authorization of the programmed works must be requested, presenting, in writing and 48 hours in advance, a work plan to the Department of Telematic Monitoring, clearly indicating:

- a. Name, national identity card (or passport), position, company, contact telephone number and email address of the engineers and / or technicians responsible for the scheduled work.
- b. Objective of the scheduled work.
- c. Scope of scheduled work, indicating which stage of the whole system affects.
- d. Start time and end of scheduled work.
- e. System unavailability time during scheduled work.
- f. Actions of return back (rollback).

It is the responsibility of the supplier company to coordinate this information with the subcontractor companies so that Gendarmerie of Chile is opportunely informed with respect to the programmed works. The breach of the service level of the monitoring system implies the collection of fines to the supplier company.

1.5. - Data Center.

The Company must have a certified Data Center to install its processing servers and the necessary databases. Said Data Center will communicate with the Monitoring Centers through a data transport network backed up with quality of service, for example: transport network with MPLS (Multiprotocol Label Switching) or its equivalent. This transport network must allow communication between the wireless data network, the Monitoring Centers, the Data Center, the Gendarmerie data backbone and the data backbone of Carabineros of Chile and/or the Chilean Investigation Police, if that corresponded All the required inputs (routers, switches, wiring, labeling, lease of links, etc.) to achieve this communication will be of the Company's cost.

1.5.1. - Data Center Certifications.

Certification means compliance with international standards, understood as those specified in North American or European standards.

It is required that the Company maintain its own or outsourced Data Center, which, at least, has the following certifications:

- a) Structured wiring.
- b) Energy backup system.

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- c) Fire protection system.
- d) Climate system.
- e) Earthing system.

1.5.2. - Data Center hardware and software specifications.

The following is a list of the minimum elements that the Company should consider in the proposed architecture for the Data Center processing and database racking equipment:

- a) Monitoring servers with their respective licenses, with exclusive dedication to the bidding system. The shared use of servers with third parties, or the virtualization of servers is not allowed.
- b) Software with the monitoring server applications and their respective licenses.
- c) Database engine software with their respective licenses.
- d) Database system with mirrored disk arrays.
- e) Hardware required for data connectivity with redundant links that allow access to the Gendarmerie data processing, database and backbone servers. The routers and connectivity configuration services, as well as the enabling and laying of cables, fibers, connectors, etc., will be the responsibility of the Company.
- f) Hardware and software of firewalls that allow to define a safe zone by means of security policies.

To ensure high availability, the architecture must contain as many redundant elements as necessary, at the software and hardware level.

For the foregoing, the Company must present the following information:

- Identification, catalog and / or description of technical characteristics of the equipment, its components and devices.
- Background that clearly details the operation restrictions and minimum equipment maintenance requirements.

Renewal of hardware equipment installed in Data Center the Company must replace, if necessary due to failure or obsolescence, the equipment to guarantee the operational continuity of the contracted service, a situation that will not represent any cost for the Gendarmerie of Chile.

1.6. - Encryption of information.

The Company must indicate the levels of encryption of its solution, between the devices and the monitoring system. It is required that the proponent present at least the level of encryption of the device in the air channel.

1.7. - Backups

It will be the obligation of the Company to maintain permanent backups of the database that generates the telematic monitoring service and deliver daily copies to the Gendarmerie.

Obligation of maintenance and periodic update of the Local Database

Gendarmerie of Chile will have a Local Database hosted in its own dependencies destined to the storage of all the information generated by the Telematic Monitoring System.

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The Company must ensure the historical update of the information contained in the Database that the Gendarmerie of Chile has throughout the term of this contract. The aforementioned updating process will be required every two months by the Department of Telematic Monitoring.

Once the date of termination of the contract has arrived, the Company will have 15 consecutive days to accredit the total updating of the Database with all the accumulated historical information, that is, the one that was accumulated in the Database at the beginning of the services, as well as the IFT and Trackerpal systems, in the monitoring of the sentences that to date are controlled until the end of this contract

2. Telematic Monitoring Devices

2.1. - Monitoring devices for the Condemned.

The devices used for telematic monitoring must meet the following fundamental characteristics:

- a. The device must allow the condemned to be identified unequivocally in the monitoring system.
- b. The device must reflect the convicted person's position, either in the form of coordinates or in the form of presence or absence within a specific geographical area, according to the streets to be completed. There will be areas of inclusion that will restrict the displacement and permanence of the convicted person in his home during predefined times judicially in the case of the sentence of partial seclusion.
- c. The monitoring devices must be easy to install and adjust and must be equipped with a manipulation detection mechanism that is able to verify this type of events and transmit them to the Monitoring Centers. "Tampering" is considered any attempt of improper administration, attempt to discard it, opening of the box containing the receiver, physical damage to the equipment and improper removal of the device or tracking unit, which does not allow the optimal functioning of the monitoring service telematic
- d. The data transmitted must, in turn, be transferred to the Monitoring Centers through a communication system, allowing this transfer in an autonomous manner, at least every 2 minutes, being able to be configured remotely so that this transfer could be carried out in a greater or lesser time, according to the needs of the Gendarmerie.
- e. The solution must be capable of configuring a parameter that will establish the maximum distance or the radius measured from the location of the device or tracking and receiving unit, to which the condemned person may go. This value must be configurable through the programming made from the Monitoring Center.

The margin of measurement error, between the actual location of the monitored convict and the coordinates sent by the device, must be less than 24 meters.

- f. The means of transport of the location data of the convicted person is the mobile telephone network, for which the solution must consider the CELL-ID information or identifier of the cellular telephone base station to which the condemned person is connected. The Company must provide a visualization system that allows identifying, in a map, the approximate location of the convicted person.
- g. Those devices that are in permanent contact with the body of the condemned must be hypoallergenic and resistant to water, at high operational temperatures, changes in temperature, humidity and extreme conditions.
- h. Likewise, the transmitting device must comply with the maximum electric field levels allowed by the Sub-secretariat of Telecommunications (SUBTEL), so as not to generate relevant interferences with other electronic and / or telecommunications devices.
- i. The device, in conjunction with the software system, must be capable of generating different levels of warnings in real time, both when entering exclusion zones, as well as exits from inclusion zones, as well as pre-exclusion zones that allow generating pre alarms, which should, if necessary, be able to be determined remotely.

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- k. It must also allow bidirectional communication between the convicted person and the Monitoring Centers through the unit itself. This communication channel will be used to transmit warnings from the Monitoring Centers.
- l. The device in conjunction with the software system should contemplate a mechanism of conservation and retrieval of information in case of failures.
- m. The device must have an autonomous power system, information on the battery's state of charge and alert to the Monitoring Centers when the battery's charge status is low.
- n. The device, in conjunction with the software system, must transmit alerts to the Monitoring Centers when the convicted person transgresses the limits established in the sentence for their displacement or those limits established in the Gendarmerie action protocols to avoid potential rupture of the sentence.

2.2.- Device for the victim.

In addition to the characteristics mentioned above, the device for the victim must consider, in accordance with article 23 bis of Law No. 18,216, the following minimum technical requirements:

- a. Allow in the monitoring system, unequivocally, the knowledge of the location of the victim communicating its position to the Monitoring Center, when it is noticed the proximity with the condemned, according to pre-established parameters.
- b. The device, in conjunction with the software system, must allow knowledge of the victim's location within the national territory and communication of its position to the Monitoring Center, through some technological means, its combination or any other development that improve its functionality
- c. Allow bidirectional communication between the victim and the Monitoring Centers. Allow the system to emit a perceptible signal in the Monitoring Centers in case of proximity between the convicted person and the victim.

The devices to be installed in the home of the convicted person, the body of the convicted person and / or the victim, must use a wireless data transport network to communicate with the Monitoring Centers. In case of using the GPRS cellular data network, a dedicated APN should be created in the Core MPBN of the mobile operator associated with the offeror and have at least one level of data encryption, either at the device level and / or in the communication channel and/or end-to-end encryption etc. The offeror must detail their security levels throughout the communication section.

2.3. - Installation, support and removal of the devices.

It must provide a comprehensive solution to achieve the proposed objectives, considering the technical feasibility certification, installation, technical support and recovery of monitoring devices, together with Gendarmerie, throughout the national territory. This service must consider, at least:

- a.- The "technical feasibility certification", which consists in the issuance of a document, to be called the "technical feasibility certificate", which indicates the possibility of supervising the convicted person through the telematic monitoring system to be hired. In case the result is negative, said certificate must be founded.
- b.- The supply, installation and removal of the devices required for the implementation of the system, in time and form, in accordance with the requirements of these rules
- c.- Provide permanent technical support, remotely, through professional support for failures that arise in the manipulation of devices. If a solution of the damage is not possible, the supplier company will proceed to perform the repairs in person.

For the installation process of the device, the Company received the name of General of Monitoring (CLM). In the event that the sentence of partial seclusion, if required, to carry out an installation in the home of the convicted person, the supplying company must provide the necessary transportation to mobilize its staff together with the Gendarmerie official from the respective Social Reinsertion Center, all the way to the domicile of the condemned and back to the Social Reinsertion Center. The costs associated with this transport are charged to the company providing the telematic monitoring service.

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For the installation of each device:

1. - See Technical Annex "Process of analysis and analysis of technical feasibility for the installation of the telematic monitoring device".
2. - See Technical Annex "Installation process of the telematic monitoring device in the sentenced person's home".
3. - See Technical Annex "Process of installation of the telematic monitoring device to the victim".

To control compliance with the penalty:

1. - Technical annex "Process of control of the penalty of partial confinement".
2. - Technical Annex "Process of control of the sentence of intensive supervised release".
3. - Technical Annex "Process of control of the term of monitoring and removal of devices".
- 2.4.- Maximum response time.

The Company must provide a response time to provide technical assistance, in accordance with the provisions of the contract and this technical annex, in the national territory, namely assistance in the technical feasibility report, installation, uninstallation, replacement of the devices and technical support in case of failure.

The Company is required to commit a resolution time to provide remote technical assistance equal to or less than three hours and technical attendance in any part of Chile equal to or less than 24 hours after the Gendarmerie requests it.

3. - Maintenance of the National Monitoring Center and Regional Support Center

As part of the objective of telematic monitoring service in this contract it is required the maintenance provided by the Gendarmerie for the Telematic Monitoring Department, including, on it, the "Monitoring Center", which is address on Rosas Street #1274, second floor, Santiago, Metropolitan Region, and the Regional Support Center, located at Prat Street # 255, office 402, La Serena city, Coquimbo Region. This last center will operate in the event of any type of catastrophe or any kind of circumstances qualified by the Gendarmerie, which affect or stop the normal operation of the Monitoring Center.

The Company in the maintenance processes should consider the replacement of equipment, if necessary due to failure or obsolescence, to guarantee the operational continuity of the contracted service, a situation that will not represent any cost for Gendarmerie of Chile and that will suppose a replacement of equipment by models of better or at least the same category.

3.1.- Hardware and software of the Monitoring Center and the Regional Support Center. The Company must provide and permanently maintain the necessary technology and hardware, equipment, licenses and data link to perform the telematic monitoring functions of convicts and victims. Considering a functionality of the Monitoring Center, for 25 operators and 3 supervisors, and the Regional Support Center, for 12 operators.

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Computers for Operators

In order to administer and operate the system efficiently, Gendarmerie will make available permanently 25 personal computers (PCs) for the Monitoring Center and 12 personal computers for the Regional Support Center, all of them with 4 GB in RAM. With HD monitors, 1 Terabytes minimum, with 10/100/1000 Ethernet network card, optical mouse, high performance graphics card not integrated to motherboard and independent memory, keyboard and DVD recorder for operators connected to the system of telematic monitoring and 3 similar computers for supervisors in the Monitoring Center. Each computer should have 2 monitors with a viewing area of not less than 19 inches each. The capacity and speed of the processor must be at least three times the minimum required by the system.

The Gendarmerie of Chile may require to the Company provide maintenance, technical services, replacement in case of failure and/or obsolescence of the equipment referred to in the previous paragraph. The replacement should consider all the hardware facilities that are deemed convenient to make the task of the operators more efficient and effective, with the necessary space in their hardware, incorporating Windows operating system, Microsoft desktop software (Word, Excel and Outlook). Updateable anti-virus software should be included. All these softwares must be installed with their respective license.

Likewise, the Company must satisfy requirements related to ergonomic aspects (example: physical disposition of the equipment on the work space, comfortable seats, etc.), due to the levels of concentration and time that the operators must dedicate to this work.

- Printers.

The Gendarmerie of Chile will make available, two color printers, multifunctional basic with network connectivity, that have, at least, with scanner, that allows the digitization of sheets in letter and trade form, being the obligation of the Company the maintenance of these equipments as likewise provide the necessary input for its operation at the request of the Department of Telematic Monitoring.

- General visualization system of the Monitoring Center and Regional Support Center.

The Gendarmerie of Chile will permanently make available, for the Monitoring Center and Regional Support Center, 4 flat LED monitors, 42 inches, full HD (1920 x 1080 pixels), with PC input, HDMI input, video input component and USB connection. The Company must, in the event of faults and/or obsolescence, replace them by the same model or higher, for this they must consider that said monitors will be on 24 hours, every day of the year.

In addition, the Company must provide maintenance and replacement in case of failures and/or obsolescence of the multimedia projectors that Gendarmerie has arranged for each of the centers. In case of replacement, the Company must consider the installation and configuration of these equipments considering equipments of equal or better quality in relation to the one that is replaced.

- Telephone Center

Gendarmerie will provide an IP telephone exchange (which supports VoIP protocols H323, SIP, etc.), with their respective switches with QoS and Power over Ethernet and 70 IP annexes with viewfinder and with the option of using a headset and speed dialing capability, from the computer, through an optional softphone application. There are also four fax devices, compatible with the telephone exchange used.

The Company must provide maintenance and replacement in the event of failures and/or obsolescence of the necessary elements that make up the Telephone Center that Gendarmerie has arranged for each of the centers. In the event of replacement, the Company must consider the installation and configuration of equipment considering models of equal or better quality in relation to those that are replaced.

The Company must provide a free access line (800 line or similar) for the communication of convicts and victims to the Monitoring Center, and two annexes where the calls made to it are received. For connectivity against the PSTN, it must provide a frame with overflow capability to 5 analogous trunk lines. The service of connection to the public telephony network must be provided, subcontracting it if necessary. The cost of the calls generated from the Monitoring Center will be in charge of the Gendarmerie. In case of power failure, the telephone service must have a minimum autonomy of 15 minutes by UPS; the system and all its components must be connected to the backup electrical network provided by the generator.

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Call recording system.

For voice communications, the Company must provide a system capable of recording all the communications established in the Monitoring Center, for which it must contemplate the supply and installation of a recording, editing, and reproduction and administration audio system with the following facilities:

- a. Be compatible with the monitoring system to perform the recording function.
- b. Accept connection of analog and digital audio lines for recording.
- c. Store together with the audio of each recording, the data of the calls, such as number of origin, destination number, duration of the call, date and time of the calls, etc.
- d. The call registration system must allow access to any stored call at any time.

The storage period of the audio backed up files will be at least three years.

It must provide a recording system that has a management system with, at least, the following capabilities:

- a) System that has a call finder by criteria such as: duration of the call, date and time, number dialed and indication if the call is incoming or outgoing from the Monitoring Centers.
- b) Recording system that has an independent workstation, compatible with the recording system, based on a complete computer system (PC, 19 " monitor, keyboard, mouse, speakers, DVD recorder, etc.), which must have the ability to be connected via network to the recording system, and must also contain all the applications necessary to supervise, operate and configure the system directly on site.

Satellite phone system.

The Gendarmerie will provide two satellite phones for each monitoring center. It will be the duty of the Company to keep them with an active balance for 12 continuous hours in each device, to be used in emergency calls in case of catastrophe. The cost of maintaining the satellite telephone service is by the Company during the term of the contract. The balance must be available again at the end of the emergency.

Renewal of hardware equipment installed in the Monitoring Centers.

The Company must replace, if necessary due to failure or obsolescence, the equipment to guarantee the operational continuity of the contracted service, a situation that will not represent any cost for the Gendarmerie of Chile.

Support, assistance and maintenance.

Support and assistance on site.

The Company must provide support and assistance that is available on a permanent basis, this means, 24 hours every day of the year. The support should be oriented to:

- a) Support of the monitoring system.
- b) Support to the operators and supervisors of the Monitoring Center and, in general, to the Gendarmerie personnel that require it.
- c) Programming and supervision of preventive and corrective maintenance activities.
- d) Other functions to be defined during the operation of the Monitoring Center.

For these functions, regardless of the system of support and assistance that is designed, it must have an official of the Company that is available 24 hours in the active Monitoring Center, in addition to attending any possible failures, of an urgent nature or another similar requirement.

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Repair and replacement of equipment against failures.

The Company must consider the repair and replacement (for parts and original and new parts) of the equipment and accessories delivered as part of this service.

Deadlines for installation, replacement, removal and technical support of the devices.

a. The Gendarmerie will inform the Company of the requests for installation and/or removal or replacement of the devices, with at least 48 hours in advance of its execution. This implies that the Company must be ready within that period to attend where Gendarmerie requests it. In the event that the Company does not appear, the fines indicated in this contract will be apply.

b. In the event that the device requires technical support, the Company will have a period of 3 hours to solve the problem remotely, from when the Gendarmerie or the Company itself notifies the problem. In the event that the remote support does not solve the problem within a period of three hours, the Company must inform the Gendarmerie and the information described in letter a) of the previous paragraph will be applied.

c.- In the case of requesting the Technical Feasibility report for the installation of a Telematic Monitoring device in the domicile of the accused, the Company must have a web consultation portal, where the Gendarmerie can ask online, entering the street, the number and city of the accused for the purposes of article 23 bis of Law No. 18,216. This portal must be available 24 hours a day, every day of the year, and its result will be considered by the Gendarmerie as an official response from the Company. When gendarmerie used this portal, it must show a result of the type "Positive Installation Feasibility", "Negative Installation Feasibility" and "Feasibility Pending", in case of solve or not the coverage requirements, the reason must be indicated in those cases where the feasibility of installation comes with a negative result. In the event that the Company requires to review and validate this response online, it will have a period of 24 hours from the time of the consultation to the site.

Preventive and corrective maintenance service.

The supplier company must deliver, to the technical counterpart of the Monitoring Department, on the first business day of each month, the planning of the preventive maintenance services and a monthly report of the preventive and corrective maintenance services performed the previous month. Will be required rigorous compliance with the dates planned by the contractor.

In the case of equipment installed in the "communications room or local data center" located at the National Telematic Monitoring Center, a schedule of maintenance services must be delivered on the first labor day of each month, but it is understood that any modification of this programming should be informed and justified to the Gendarmerie staff for its previous authorization

Preventive Maintenance.

The supplier company must prepare forms for the realization of preventive maintenance services in each system. Once the maintenance work has been completed, the corresponding tests must be carried out to ensure the continuity of the service. The form must contain the following information:

- Name of the technician who performs the maintenance service.
- Date and time of entry or start of maintenance work.
- Date and time of completion of maintenance work.

List of all the tasks performed, the state before maintenance and the final status after maintenance, indicating the respective observations of each task.

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For the specific case of some maintenance that considers the task of measuring values, for example, percentage of use of the File System, this must be registered in the form, which must also contain the range of values allowed for each one of them.

If there are any forms submitted by third parties, the contractor must complete the respective form for that maintenance, also attached the report of the external third party that make the maintenance, to the maintenance report that will be submitted to the Service.

Gendarmerie reserves the right to attend preventive maintenance services carried out in the field.

The Company will be responsible for updating the topology diagrams of each system in case of any modifications that could be made to that. These updates must be delivered within a period of no more than one day after the changes are made. Any maintenance work that is required to be performed and that involves a subcontractor must be supervised continuously and in person by authorized technical personnel of the contractor company. The authorization to enter the Monitoring Center to the maintenance purpose of subcontractor personnel, must be previously requested to the Gendarmerie.

Gendarmerie will have the right to revoke the entry permit of a worker of the Company or of a subcontractor, in which case that must be explained their decision.

Likewise, Gendarmerie will have the right to ask the supplier company to replace the personnel. This will be applicable when Gendarmerie is not satisfied with the service provided by someone from the supplier company.

The supplier company will not be able to connect remotely to any of the data networks of the Monitoring Centers, without prior authorization granted by the Gendarmerie.

All access to reading, operation or modification of any system or database of the Monitoring Center or equipment installed in the Data Center, must be previously authorized by the Gendarmerie.

- Preventive Maintenance Report.

The general maintenance of the system must contemplate the aspects indicated in the Technical Annex "General requirements for the execution of maintenance services" and Technical Annex "Procedure of Preventive Maintenance of the Data Center and Monitoring Centers". For the specific maintenance of the computer systems, the provider must take as an example of a report, the "Monthly Report of Alarms and Performance of the Hardware and Software of the Monitoring Platform."

- Corrective Maintenance Report.

All equipment repairs must be executed, according to the manufacturer's original specifications.

The supplier must generate a corrective maintenance report every time an action of this nature is carried out. This report must be submitted no later than 48 hours after the failure, which must contain, at least, the following information:

- Place, date and time.
- Responsible for the repair procedure.
- Fault description.
- Cause of the malfunction.
- Technical solutions (repair, replacement, etc.)
- Level of the operation system after repair.

Gendarmerie reserves the right to attend corrective maintenance services carried out in the field.

Training and manuals.

It will be the exclusive responsibility of the Company to guarantee specialized training to the Telematic Monitoring Department staff (Monitoring Center and Regional Support Center) at the initial moment as well as continuously throughout the provision of the service, always in collaboration with and under the supervision of the corresponding Department.

The Company in order to maintain an adequate provision of the service must also provide initial training in the terms indicated in the previous paragraph, to 100% of the new officers hired in the period.

The provider company to ensure the proper functioning of the Telematic Monitoring System must train the Department staff as many times as it deems appropriate, coordinating with the Head of the Department the execution of the activities.

All expenses associated with the training activities shall be made by the Company, with the exception of those related to the transfer and residence of the officials to be trained.

Subjects to capacitate.

The supplier company must train the Gendarmerie personnel, in the following matters:

- a. Training of monitoring platform operators.
- b. Training of installation / uninstallation of mobile devices.
- c. Descriptive training of procedures in the use of the following elements:
 - Telephone exchange and satellite telephones.
 - Administration of the access control system.
 - Air conditioning and climate system.
 - Anti-fire system.
 - Generator and backup batteries.

In addition, the Company will provide the training and operation manuals and problem solving manuals for each of the topics specified in the previous paragraph.

Other matters to consider.

Communicative skills.

In order to achieve an efficient and persuasive skills in the use of verbal expression techniques, a diction and communication class should be considered for the operators and supervisors of the Monitoring Centers.

Conflict and crisis management.

The plan must consider the training of the operators and supervisors of the monitoring system, tending to acquire knowledge, techniques and strategies that allow minimizing the impact of any contingency, generated by emergency situations and/or crisis. This training must provide skills and abilities that allow operators to attend, promptly and professionally, emergencies that occur due to their function. The agenda for the training of communication skills, conflict management and crisis, will be agreed between the parties, Company and the Gendarmerie.

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Language training and manuals.

The trainings and manuals must be delivered in Spanish. Acronyms and technical acronyms are allowed in English, which must be explained in a glossary of technical terms. In addition to the manuals delivered to each student in each course, you must submit 2 copies of quick reference manuals to solve the problems (troubleshooting) for each of the personnel to be trained. Likewise, the Company must deliver the set of backups in electronic format (PDF, WORD, etc.) in 5 replicated CDs and in a Pendrive device.

Place of capacitation.

The trainings will be carried out in dependencies provided by the Company. All the necessary materials and laboratories must be available to carry out the required training. Likewise, the contractor must consider a coffe-break (tea, coffee, mineral water, juice and cookies) of 20 minutes at mid-morning and mid-afternoon during each day of the training given.

Without prejudice to the issues outlined here, the Gendarmerie of Chile may require the Company to carry out training related to the services offered, after determining a agenda that will be agreed upon by the parties.

Training certificate.

The Company must provide a certificate of participation in each of the trainings, when the student registers an attendance greater than or equal to 80%.

4.- Finalization of the Service and migration of the operation of the Telematic Monitoring System to the new awarded company, after the termination of the contract.

Availability to develop migration process.

With the objective of guaranteeing the full operation and continuity of the service, regardless of the Company that supports it in the future, the Company must make available to the Gendarmerie the technical documentation that details the format and order in which the devices they send the data of coordinates or any other relevant information, in order to guarantee the recognition of the new localization devices by the software of the system. For example, indicate if TCP or UDR is used, the sockets ports used the order in which it sends the coordinates and other parameters, the encryption of that data, etc

Also, starting from the beginning of the sixth month of the contract, the company must adjust the fulfillment of each of its contractual obligations to the requirements that the Gendarmerie of Chile formulates in order to allow the development of the milestones contemplated for the installation of the incoming supplier company, whichever it may be, that has been decreed by the Gendarmerie of Chile as the contractor that provides continuity to the Telematic Monitoring Service.

The Gendarmerie will have a term of six months, after the termination of the telematic monitoring service contract, to return to the Company all those monitoring devices that were installed before the start of operation of the new awardee.

Uninstallation of Infrastructure.

Both the furniture and infrastructure installed in the Monitoring Center and the Regional Monitoring Support Center for the purposes of maintenance work, will become part of Gendarmerie property, so that the Company can not withdraw them, unless Gendarmerie request it explicitly. This uninstallation will be at the Company's expense.

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**TECHNICAL ANNEX:
FLOW DIAGRAMS PROCESSES OF CONDEMNATION ON TELEMATIC MONITORING SERVICE**

- Technical Annex "Application process and technical feasibility analysis for installation of telematic monitoring device".
- Technical Annex "Process of installation of telematic monitoring device in condemned home".
- Technical Annex "Process of Installation of telematic monitoring device to the victim".
- Technical Annex "Process of control of the sentence of partial seclusion".
- Technical annex "Process of control of the sentence of intensive probation".
- Technical Annex "Process of control of the term of monitoring and removal of devices".
- Technical Annex "Procedure in case of catastrophe"

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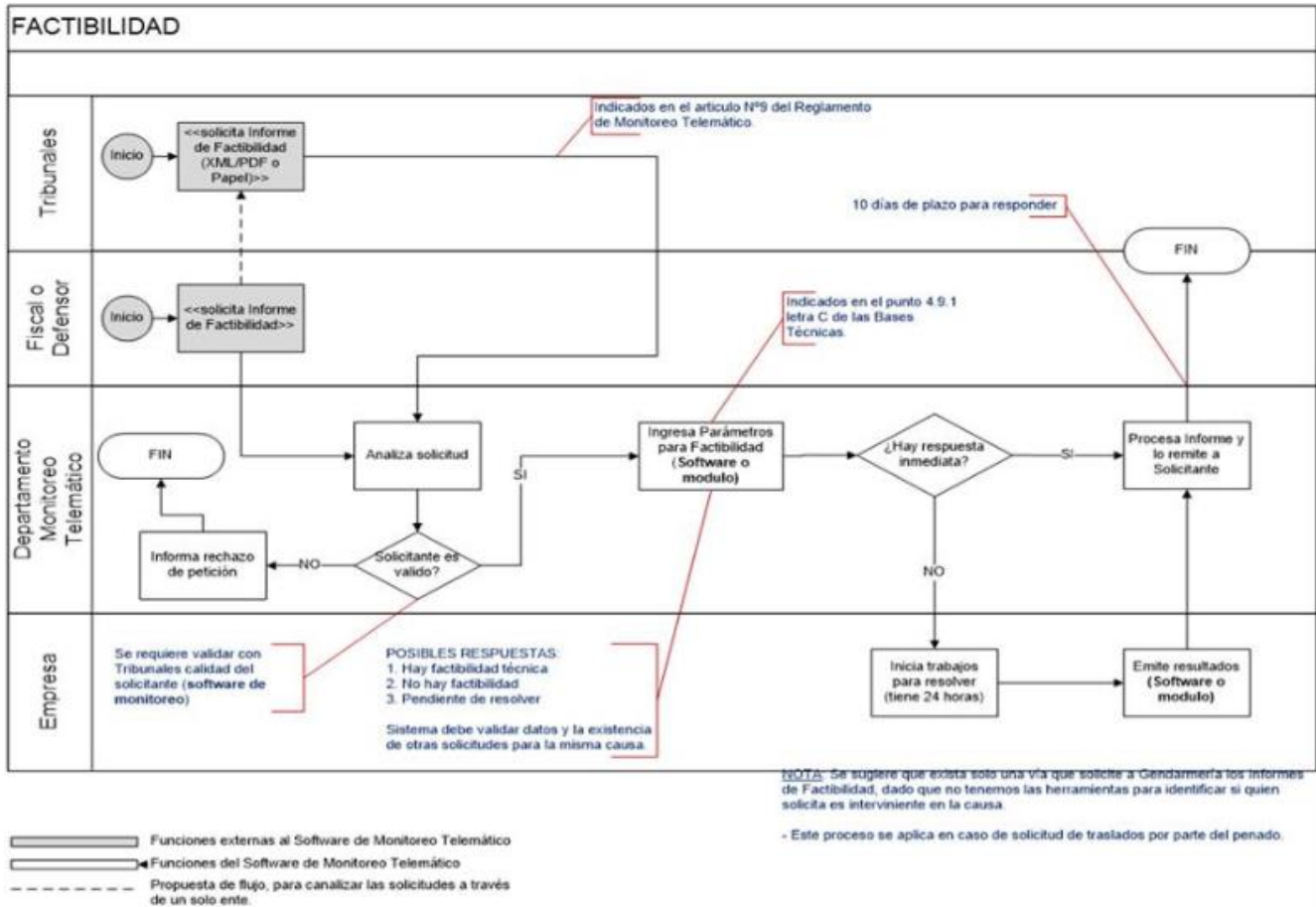
<p style="text-align: center;">TECHNICAL APPLICATION PROCESS AND TECHNICAL FEASIBILITY ANALYSIS FOR INSTALLATION OF TELEMATIC MONITORING DEVICE</p>

The processes are described below, only as a referential matter, for the request and technical feasibility analysis for installation of telematic monitoring device.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- Court, Prosecutor or Defender sends request for technical feasibility report to the Department of Telematic Monitoring.
- 2.- The Department of Telematic Monitoring analyzes the request.
- 3.- The Department of Telematic Monitoring enters the parameters for technical feasibility through software offered by the company and generates a report with the obtained result. If there is no immediate response, the Company initiates work to resolve feasibility, within 24 hours to validate and correct that result.
- 4.- The company gives the results.
- 5.- The Telematic Monitoring Department generates the Feasibility Report and sends it to the applicant.

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TECHNICAL ANNEX

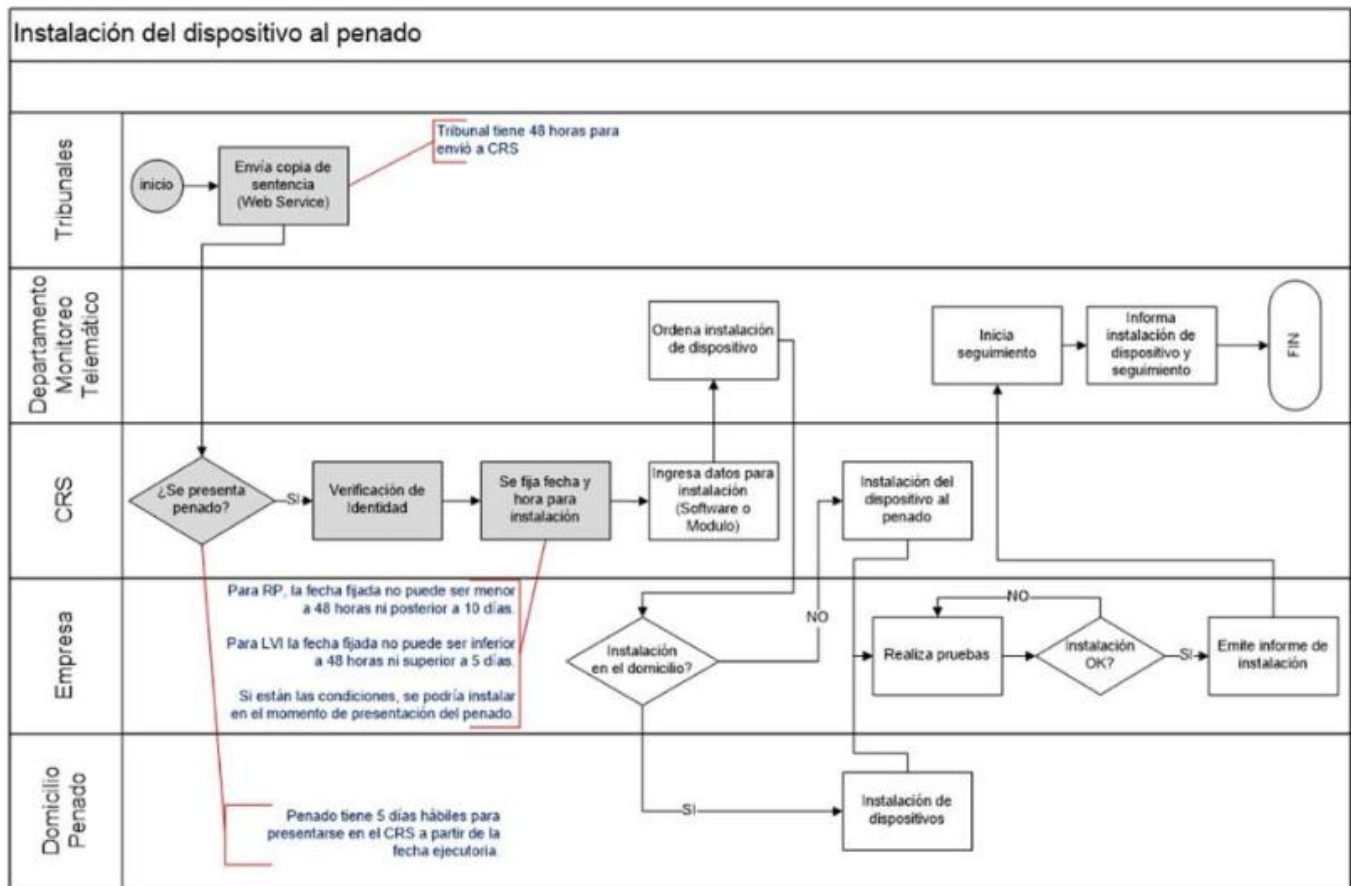
PROCESS OF INSTALLATION OF TELEMATIC MONITORING DEVICE IN THE DOMICILE OF CONDEMNED

The processes are described below, only as a reference for the process of installing the telematic monitoring device to condemn.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- The respective tribunal sends the sentence to the respective Social Reinsertion Center.
- 2.- The condemn is presented in the Social Rehabilitation Center (CRS), his identity is verified and the date and time for the installation is set
- 3.- The Department of Telematic Monitoring (DMT) gives the installation order to the Company.
- 4.- The CRS and the company send their respective answers to the DMT.
- 5.- The Company goes to the address or Social Rehabilitation Center according to where the installation corresponds to the sentence and the device to be used.
- 6.- The Company performs the installation and tests. If the installation is compliant, the Company issues an installation report and begins monitoring the convicted person according to type of device and sentence

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☐ Funciones externas al Software de Monitoreo Telemático

☐ Funciones del Software de Monitoreo Telemático

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TECHNICAL ANNEX

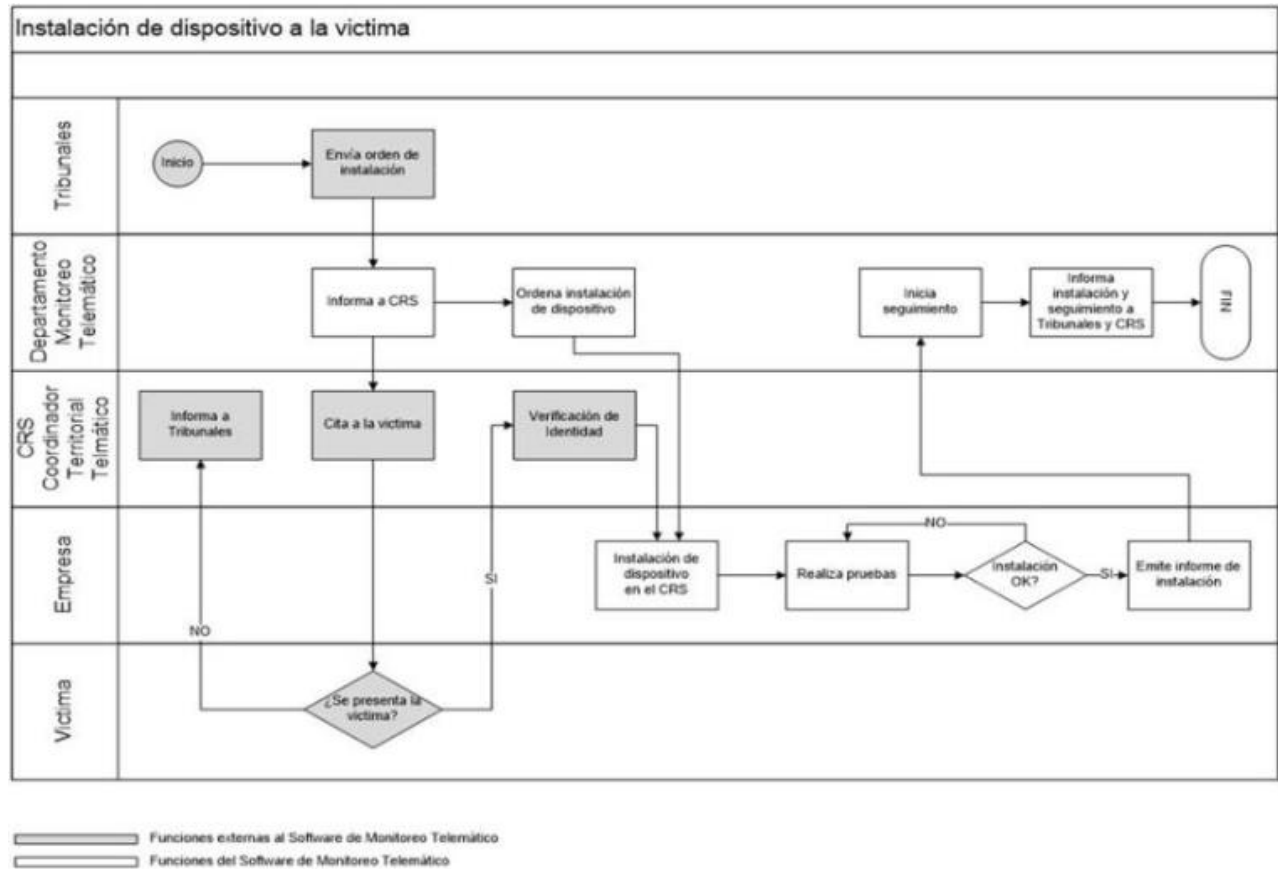
INSTALLATION PROCESS OF TELEMATIC MONITORING DEVICE TO THE VICTIM

The processes are described below, only as a matter of reference for the process of installing a telematic monitoring device for the victim.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- The respective tribunal sends the order to install the device to the victim.
- 2.- The Department of Telematic Monitoring informs the respective Social Reinsertion Center, who date the victim and verifies his identity.
- 3.- The Department of Telematic Monitoring gives the installation order to the Company.
- 4.- Company performs the installation and tests. If the installation is in done, the Company realizes an installation report and begins monitoring the victim.

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TECHNICAL ANNEX

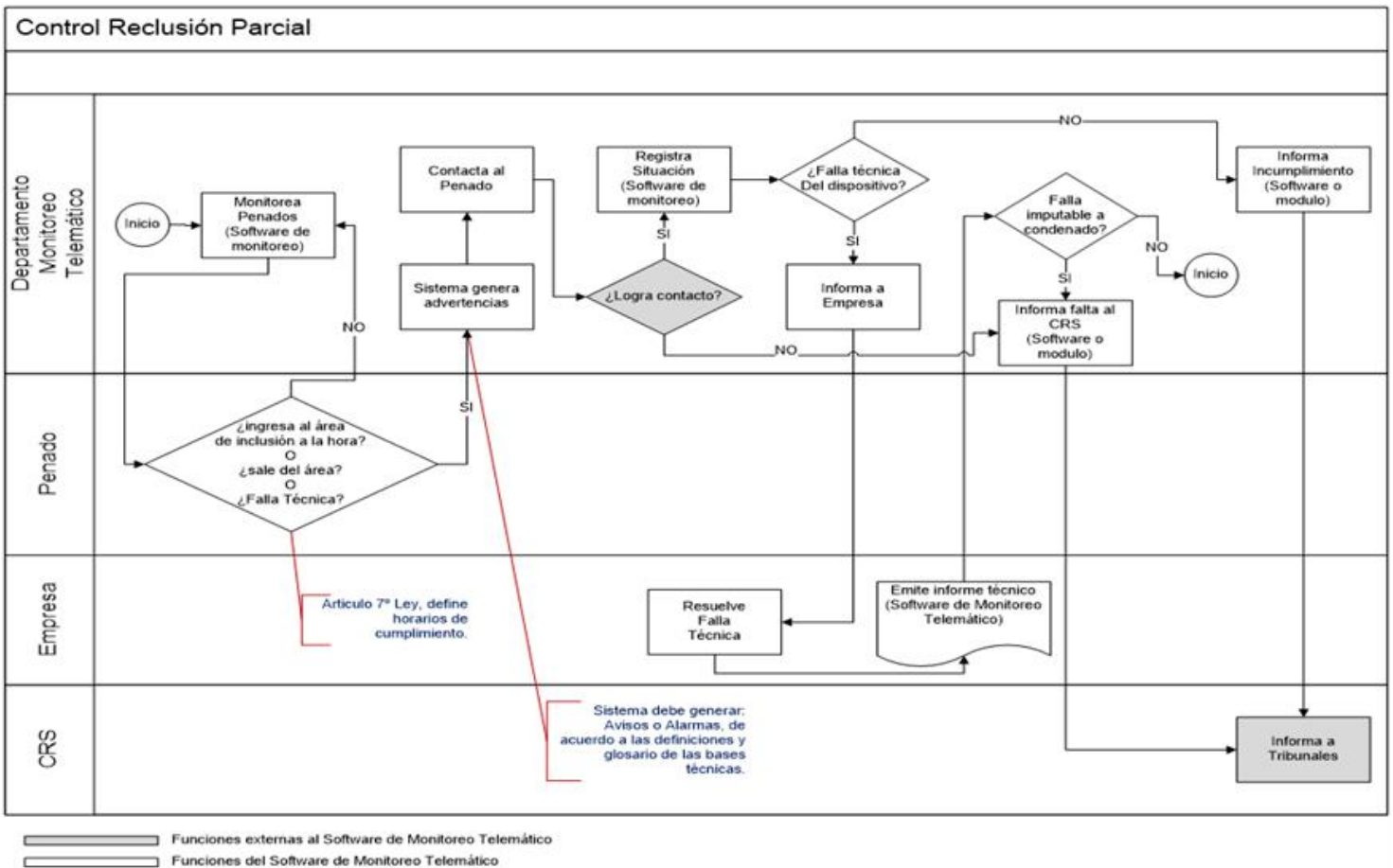
PROCESS OF CHECKING OF THE PARTIAL SECLUSION SENTENCE

The processes are described below, only as a reference for the process of controlling the sentence of partial seclusion.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- The Telematic Monitoring Department carries out the monitoring of convicts, if the system generates warnings or alarm it must be determined if it corresponds to transgressions associated with the condemn or system failures.
- 2.- The Telematic Monitoring Department reports unfulfilment to the Social Rehabilitation Center in case of failures associated with the condemn, and then it is inform to the tribunal
- 3.- The company solves the technical failure, it emits technical report and continues the monitoring of condemned.

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TECHNICAL ANNEX

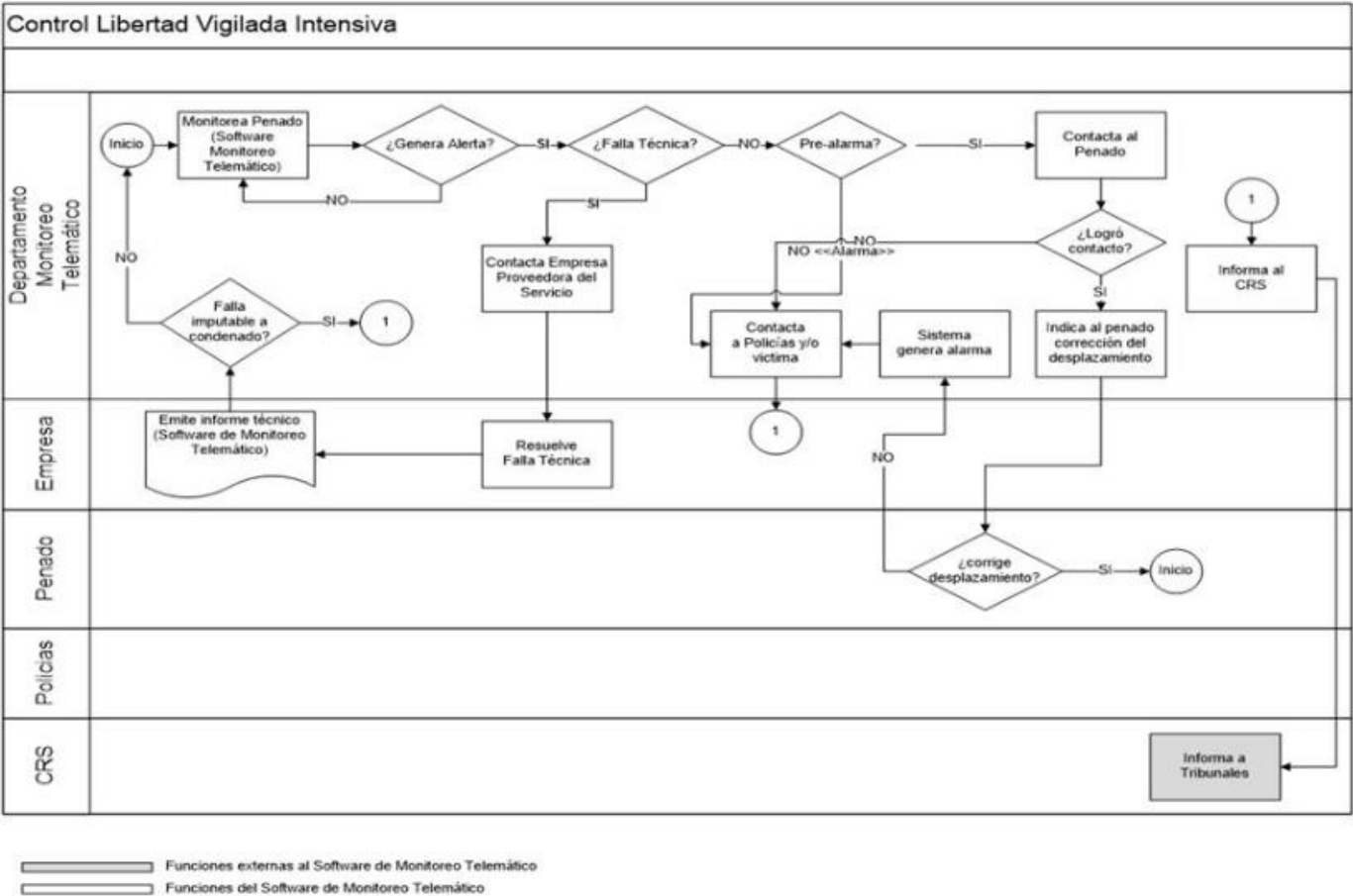
PROCESS OF CHECKING OF THE INTENSIVE PROBATION SENTENCE

The processes are described below, only as a reference for the process of controlling the intensive probation sentence

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- The Department of Telematic Monitoring carries out the monitoring of convicts, if the system generates warnings it must be determined if it corresponds to transgressions associated with the convicted person or system failures or corresponds to a pre-alarm.
- 2.- The Department of Telematic Monitoring reports unfulfilment to the Social Rehabilitation Center in case of failures associated with the convicted person, and then it is inform to the tribunal. The system generates alarms, police and / or victim are contacted.
- 3.- Company resolves technical failure, issues technical report and continues the monitoring of convicts.

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TECHNICAL ANNEX

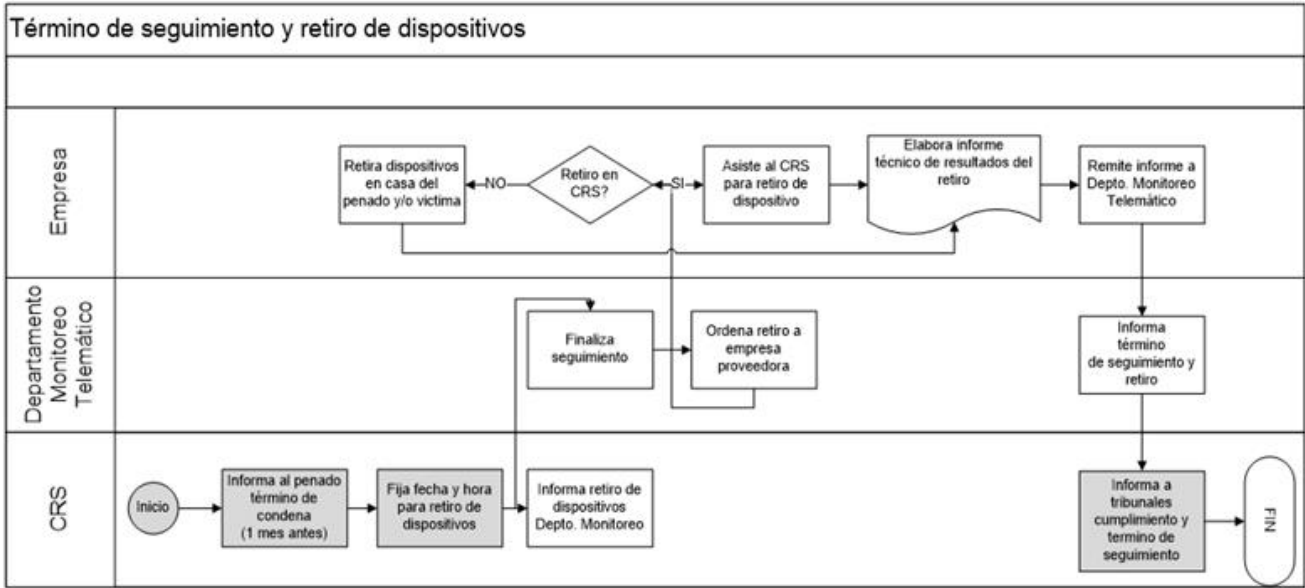
CHECKING PROCESS OF TERMINATION OF MONITORING AND REMOVAL OF DEVICES

The processes are described below, only as a reference for the process of terminating the monitoring and removal of devices.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

1. The respective Social Reinsertion Center informs the condemned and Telematic Monitoring Department of the term of sentence, sets the date and time for removal of devices.
2. The Department of Telematic Monitoring finishes monitoring the convicted and/or victim and orders the removal of the device from the Company.
3. The Company proceeds to the recovery of the device in the corresponding place, prepares a technical report of the recovery results and sends it to the Telematic Monitoring Department.
- 4.- The Social Reintegration Center, informs the Tribunal of compliance and terminates the follow-up.

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TECHNICAL ANNEX

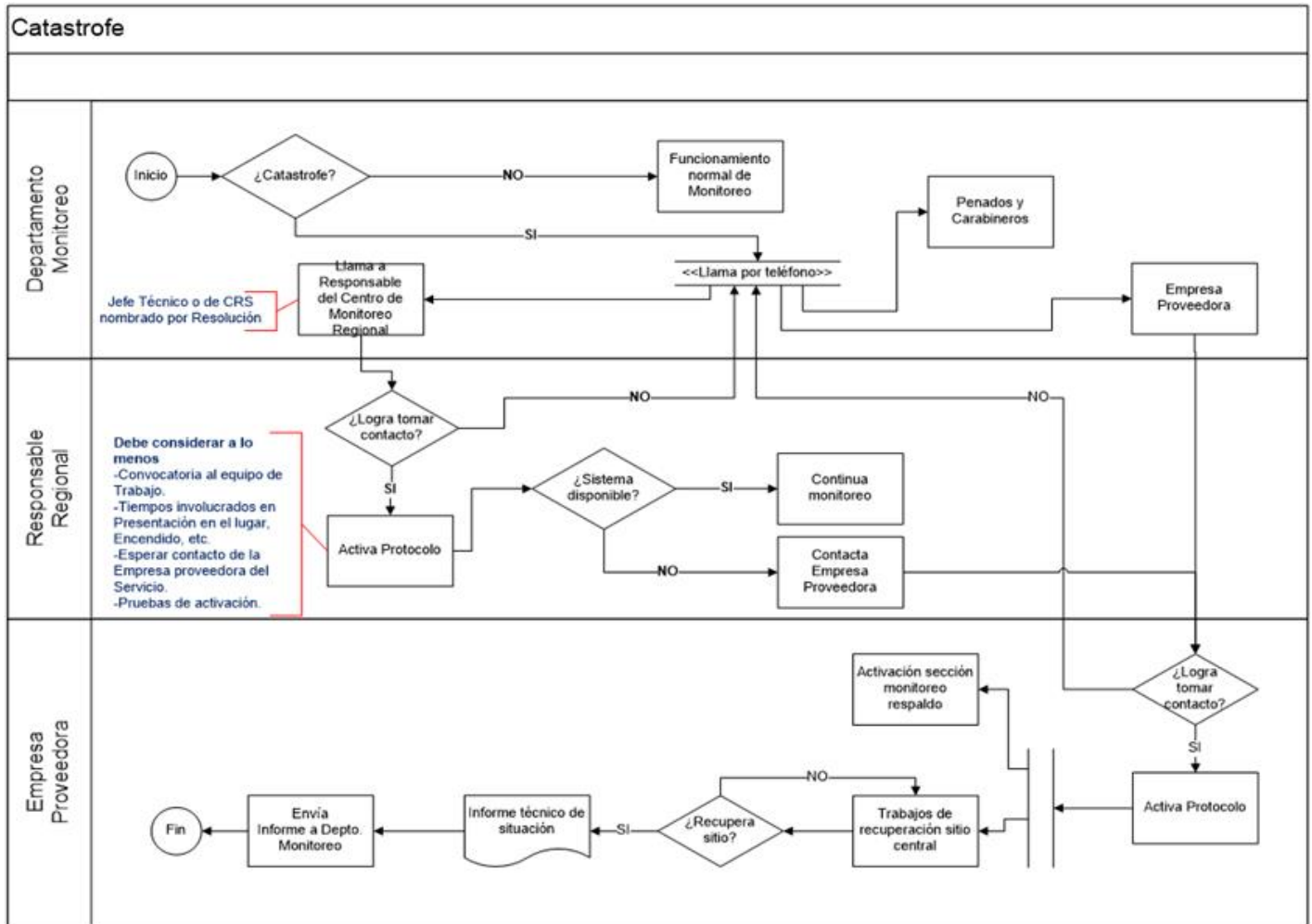
PROCESS OF CONTROL IN THE EVENT OF A DISASTER

The processes are described below, only as a reference for the control process during a catastrophe.

To facilitate the description, the internal units of the Monitoring Department have been considered as a single unit.

- 1.- The Telematic Monitoring Department in the event of a catastrophe calls the head of the Regional Monitoring Center and the Company by telephone.
- 2.- The Regional Monitoring Center active Protocol, if there is a system available, monitoring is started, if there is no available system, the Company is contacted who must proceed with the activation of the Regional Monitoring Center and the recovery of the Telematic Monitoring Department.

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TECHNICAL ANNEX

REFERENTIAL PROJECTIONS: BENEFITS, CONTRACT, DIRECT TREATMENT AND SERVICE OF TELEMATIC MONITORING OF CONDEMNED

(OCTOBER 18, 2017 - OCTOBER 18, 2018)

Periodo	Instalaciones RP	Desinstalaciones RP	Días de Monitoreo RP	Instalaciones LVI	Desinstalaciones LVI	Días de Monitoreo LVI	Instalaciones PM	Desinstalaciones PM	Días de Monitoreo PM	Instalaciones Totales	Desinstalaciones Totales	Días de Monitoreo Totales
17 al 31 de oct-17	452	326	50.112	1	0	281	8	2	4.211	461	329	54.604
nov-17	919	833	125.443	2	1	652	19	5	9.739	940	839	135.834
dic-17	723	822	121.767	2	1	681	18	5	10.124	743	828	132.572
ene-18	831	694	105.229	2	1	711	19	5	10.538	852	700	116.478
feb-18	746	585	89.201	3	1	770	18	6	10.893	767	592	100.864
mar-18	946	674	103.722	3	1	829	18	6	11.248	967	681	115.799
abr-18	913	580	90.343	3	1	888	18	6	11.604	934	587	102.835
may-18	1.016	766	117.231	3	1	948	19	6	11.988	1.038	773	130.167
jun-18	979	700	107.685	3	1	1.007	18	6	12.344	1.000	707	121.036
jul-18	921	731	111.341	2	1	1.036	18	6	12.699	941	738	125.076
ago-18	924	770	116.774	2	1	1.066	18	6	13.054	944	777	130.894
sep-18	887	779	117.614	2	1	1.096	18	6	13.409	907	786	132.119
01 al 17 de oct-18	539	382	58.850	2	1	633	10	3	7.548	551	386	67.031
Totales	10.796	8.642	1.315.311	30	12	10.598	219	69	139.399	11.044	8.723	1.465.309

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Signature of technical annexes:

National Director of gendarmerie of Chile

Mr. Jaime Rojas Flores

C.I N° 9.155.944-7

Legal Representative of the Company

Mr. Diego Peralta Valenzuela

C.I N° 5.009.310-7

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Derek Cassell, Principal Executive Officer of Track Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Track Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent three months (the registrant's fourth three months in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 10, 2018

/s/ Derek Cassell
Derek Cassell
Principal Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Peter K. Poli, Chief Financial Officer (Principal Financial Officer) of Track Group, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Track Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Dated: May 10, 2018

/s/ Peter K. Poli
Peter K. Poli
Chief Financial & Principal Accounting Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Track Group, Inc. on Form 10-Q for the period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "*Report*"), Derek Cassell, Chief Executive Officer (Principal Executive Officer), and Peter K. Poli, Chief Financial Officer (Principal Financial Officer), of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Derek Cassell
Derek Cassell
Chief Executive Officer
(Principal Executive Officer)

By: /s/ Peter K. Poli
Peter K. Poli,
Chief Financial Officer
(Principal Accounting Officer)

Dated: May 10, 2018

This certification accompanies each Report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.
