

Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **NEXJ SYSTEMS INC.**

Years ended December 31, 2012 and 2011



**KPMG LLP**  
**Chartered Accountants**  
Bay Adelaide Centre  
333 Bay Street Suite 4600  
Toronto ON M5H 2S5  
Canada

Telephone (416) 777-8500  
Fax (416) 777-8818  
Internet [www.kpmg.ca](http://www.kpmg.ca)

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of NexJ Systems Inc.

We have audited the accompanying consolidated financial statements of NexJ Systems Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of NexJ Systems Inc. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants, Licensed Public Accountants

March 6, 2013  
Toronto, Canada

# NEXJ SYSTEMS INC.

Consolidated Statements of Financial Position  
(Expressed in thousands of Canadian dollars)

December 31, 2012 and 2011

	2012	2011
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 5)	\$ 46,263	\$ 56,218
Short-term investments (note 5)	–	4,068
Accounts receivable (note 6)	9,513	4,128
Investment tax credits receivable (note 16)	–	2,479
Income taxes receivable	146	–
Prepaid expenses and other assets (note 7)	992	1,645
Total current assets	56,914	68,538
Non-current assets:		
Property and equipment (note 8)	3,869	4,596
Intangible assets (note 9)	2,400	–
Goodwill (note 9)	3,640	–
Other assets (note 10)	260	260
Total non-current assets	10,169	4,856
Total assets	\$ 67,083	\$ 73,394

## Liabilities and Shareholders' Equity

Current liabilities:		
Accounts payable and accrued liabilities (note 11)	\$ 7,318	\$ 4,805
Current portion of obligations under capital leases (note 13)	–	41
Deferred revenue	5,069	2,097
Total current liabilities	12,387	6,943
Non-current liabilities:		
Accrued liabilities (note 11)	801	1,053
Provisions (note 12)	428	–
Deferred revenue	268	–
Total non-current liabilities	1,497	1,053
Total liabilities	13,884	7,996
Shareholders' equity:		
Share capital (note 14)	83,061	79,831
Share purchase loans (note 14)	(3,622)	(3,803)
Contributed surplus (note 15)	4,859	4,034
Deficit	(31,099)	(14,664)
Total shareholders' equity	53,199	65,398
Related party transactions (note 18)		
Contractual obligations (note 22)		
Guarantees (note 24)		
Subsequent event (note 25)		
Total liabilities and shareholders' equity	\$ 67,083	\$ 73,394

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Robert J. Harding" \_\_\_\_\_ Director      "William M. Tatham" \_\_\_\_\_ Director

# NEXJ SYSTEMS INC.

Consolidated Statements of Comprehensive Loss  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

	2012	2011
Revenue:		
License fees	\$ 4,102	\$ 8,542
Net license reseller fees	219	–
Professional services	16,770	18,259
Maintenance and support	5,098	3,448
	<u>26,189</u>	<u>30,249</u>
Expenses*:		
Professional service costs	11,523	10,007
Research and development, net	14,900	13,364
Sales and marketing	8,398	7,812
General and administrative	8,868	7,808
	<u>43,689</u>	<u>38,991</u>
Loss from operations	(17,500)	(8,742)
Foreign exchange gain (loss)	(213)	788
Finance income (note 19)	612	418
Finance costs	(3)	(7)
	<u>396</u>	<u>1,199</u>
Loss before income taxes	(17,104)	(7,543)
Income tax recovery (note 16):		
Current	–	–
Deferred	(669)	–
	<u>(669)</u>	<u>–</u>
Net loss and comprehensive loss for the year	<u>\$ (16,435)</u>	<u>\$ (7,543)</u>
Loss per share (note 20):		
Basic and diluted	\$ (0.83)	\$ (0.42)
Weighted average number of common shares outstanding (note 20):		
Basic and diluted	19,880	17,751
*Share-based payment expense has been included in expenses as follows:		
Professional service costs	\$ 241	\$ 293
Research and development, net	389	535
Sales and marketing	60	595
General and administrative	375	589
	<u>\$ 1,065</u>	<u>\$ 2,012</u>

See accompanying notes to consolidated financial statements.

# NEXJ SYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Equity  
(Expressed in thousands of Canadian dollars and shares)

Years ended December 31, 2012 and 2011

2012	Common shares Number	Common shares Amount	Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2011	19,675	\$ 79,831	\$ (3,803)	\$ 4,034	\$ (14,664)	\$ 65,398
Comprehensive loss	–	–	–	–	(16,435)	(16,435)
Share-based payment expense (note 15(a)(iii))	–	–	–	1,065	–	1,065
Exercise of employee stock options	22	125	–	(55)	–	70
Repayment of share purchase loans by employees* (note 14(b)(i))	33	–	143	–	–	143
Cancellation of shares pursuant to share purchase loan (note 14(b)(i))	–	(38)	38	–	–	–
Exercise of stock options by agents of private placement (note 15(a)(iv))	110	820	–	(185)	–	635
Issuance of shares on acquisition of Broadstreet (note 4(a))	528	2,323	–	–	–	2,323
<b>Balance, December 31, 2012</b>	<b>20,368</b>	<b>\$ 83,061</b>	<b>\$ (3,622)</b>	<b>\$ 4,859</b>	<b>\$ (31,099)</b>	<b>\$ 53,199</b>

\*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At December 31, 2012, 950 common shares were legally issued and outstanding to employees in connection with these agreements and were included in the total outstanding common shares of 21,318.

See accompanying notes to consolidated financial statements.

# NEXJ SYSTEMS INC.

Consolidated Statements of Changes in Shareholders' Equity (continued)  
(Expressed in thousands of Canadian dollars and shares)

Years ended December 31, 2012 and 2011

2011	Common shares Number	Common shares Amount	Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2010	14,704	\$ 35,455	\$ –	\$ 2,196	\$ (7,121)	\$ 30,530
Comprehensive loss	–	–	–	–	(7,543)	(7,543)
Share-based payment expense (note 15(a)(iii))	–	–	–	2,012	–	2,012
Exercise of employee stock options	13	44	–	(10)	–	34
Issuance of common shares as part of IPO (note 14(b)(ii))	4,850	43,650	–	–	–	43,650
Financing costs incurred relating to the IPO (note 14(b)(ii))	–	(3,888)	–	–	–	(3,888)
Issuance of common shares to employees (note 14(b)(i))	–	3,842	(3,842)	–	–	–
Repayment of share purchase loans by employees* (note 14(b)(i))	10	–	39	–	–	39
Exercise of stock options by agents of private placement (note 15(a)(iv))	98	728	–	(164)	–	564
<b>Balance, December 31, 2011</b>	<b>19,675</b>	<b>\$ 79,831</b>	<b>\$ (3,803)</b>	<b>\$ 4,034</b>	<b>\$ (14,664)</b>	<b>\$ 65,398</b>

\*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At December 31, 2011, 989 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total number of outstanding common shares of 20,664.

See accompanying notes to consolidated financial statements.

# NEXJ SYSTEMS INC.

Consolidated Statements of Cash Flows  
(Expressed in thousands of Canadian dollars)

Years ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Loss for the year	\$ (16,435)	\$ (7,543)
Adjustments for:		
Depreciation and amortization	1,256	847
Share-based payment expense	1,065	2,012
Finance income	(612)	(418)
Finance costs	3	7
Deferred tax recovery	(669)	–
Foreign exchange loss (gain)	85	(714)
Change in non-cash operating working capital:		
Accounts receivable	(2,612)	2,363
Investment tax credits receivable	2,479	940
Prepaid expenses and other assets	668	(568)
Accounts payable and accrued liabilities and provisions	879	(334)
Deferred revenue	3,233	(3,630)
Net cash flows used in operating activities	(10,660)	(7,038)
Cash flows from financing activities:		
Obligations under capital leases	(41)	(67)
Proceeds from exercise of employee stock options	70	34
Proceeds from exercise of agent stock options	635	564
Proceeds from repayment of share purchase loans	143	39
Repayment of bank indebtedness of Broadstreet Data Solutions Inc.	(1,083)	–
Issuance of common shares	–	43,650
Financing costs, net	–	(3,888)
Interest paid	(3)	(7)
Net cash flows from (used in) financing activities	(279)	40,325
Cash flows from investing activities:		
Purchase of property and equipment	(358)	(3,192)
Acquisition of Broadstreet Data Solutions Inc., net of cash acquired	(3,297)	–
Redemption of short-term investments	4,005	1,136
Interest received	612	418
Decrease in other non-current assets	–	47
Net cash flows from (used in) investing activities	962	(1,591)
Effects of exchange rates on cash and cash equivalents	22	580
Increase (decrease) in cash and cash equivalents	(9,955)	32,276
Cash and cash equivalents, beginning of year	56,218	23,942
Cash and cash equivalents, end of year	\$ 46,263	\$ 56,218
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid for	\$ –	\$ 393

See accompanying notes to consolidated financial statements.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements

(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 1. Reporting entity:

NexJ Systems Inc. ("NexJ" or the "Company") is incorporated in Canada with its corporate headquarters located at 10 York Mills Road, Suite 700, Toronto, Ontario, M2P 2G4.

The Company is a provider of private cloud-based software, delivering enterprise solutions primarily for the financial services, insurance and healthcare industries. With the acquisition of Broadstreet Data Solutions Inc. ("Broadstreet"), NexJ expanded its offerings to data governance and master data management management, data conversion and integration, data analytics and business intelligence, and mobile solution development.

## 2. Basis of preparation:

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee interpretations as issued by the International Accounting Standards Board.

The policies applied in these consolidated financial statements are based on IFRS issued as of March 6, 2013, the date the Board of Directors approved the financial statements.

### (b) Basis of measurement:

These consolidated financial statements have been prepared principally under the historical cost basis. Other measurement bases used are described in the applicable notes.

Presentation of the consolidated statements of financial position differentiates between current and non-current assets and liabilities. The consolidated statements of comprehensive loss are presented using the function classification for expenses.

### (c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, which is deemed to be the Company's functional currency.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 2. Basis of preparation (continued):

### (d) Use of estimates and judgments:

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and other factors that management considers to be relevant. Actual results could differ from these estimates and assumptions.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Key areas of estimation and judgment, where management has made difficult, complex or subjective judgments, often as a result of matters that are inherently uncertain, include:

### (i) Accounting for business combinations:

This is in relation to the Company's acquisition of Broadstreet; the determination and measurement of fair value is based on management's best estimates and assumptions and utilizes established methodologies to determine the estimated fair value of the assets acquired and liabilities assumed (note 4).

### (ii) Goodwill and intangible assets:

Impairment tests are completed using the higher of fair value less costs to sell, where available, and value-in-use calculations, determined using management's best estimates of future cash flows, long-term growth rates and appropriate discount rates. Acquired intangibles are valued on acquisition using established methodologies and amortized over their estimated useful economic lives, except in those cases where intangibles are determined to have indefinite lives, where there is no foreseeable limit over which these intangibles would generate net cash flows. These valuations and lives are based on management's best estimates of future performance and periods over which value from the intangible assets will be derived (note 3(h) and (i)).

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 2. Basis of preparation (continued):

### (iii) Income taxes:

The accounting for income taxes requires estimates and judgments to be made. Deferred tax assets and liabilities are measured using enacted, or substantively enacted, tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Management reviews the deferred income tax assets at each reporting period and records adjustments to the extent that it is no longer probable that the related tax benefit will be realized (note 16).

### (iv) Valuation of accounts receivable:

Judgment is required when providing for doubtful accounts. Management bases its estimates on historical experience and other relevant factors (note 17(b)).

### (v) Estimation of useful lives of property and equipment and intangible assets:

Useful lives over which assets are depreciated or amortized are based on management's judgement of future use and performance. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions (note 3(e) and (h)).

### (vi) Provisions:

The provisions include the earn-out obligation entered into as part of the business combination. Management judgment is required to assess whether provisions should be recognized or disclosed, and the related measurement. Because of the uncertainties related to these matters, provisions are based only on the best information available at the time. As additional information becomes available, the Company will reassess the potential liability and, if necessary, revise the provisions amounts (notes 4(b) and 12), using management's best estimate at that reporting date.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 2. Basis of preparation (continued):

### (vii) Fair value of share-based payments:

Fair value is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors as well as internal estimates. Separate from the fair value calculation, the Company estimates the expected forfeiture rate of equity-settled share-based payments based on the historical experience (note 15).

### (viii) Revenue recognition:

In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy (note 3(b)). Estimates of the percentage-of-completion for applicable customer projects are based upon current actual and updated information and contractual terms.

Significant changes in the assumptions, including those with respect to future business plans and cash flows, could materially change the recorded carrying amounts and amounts recognized in profit or loss. Refer to significant accounting policies below for further information with respect to these significant estimates and assumptions.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation:

Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Broadstreet.

Intra-company balances and transactions, and any unrealized income and expenses arising from intra-company transactions, are eliminated in preparing the consolidated financial statements.

The acquisition method of accounting is used to account for the business acquisitions as follows:

- (i) consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and acquisition transaction costs are expensed as incurred;
- (ii) identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;
- (iii) the excess of the fair value of consideration transferred including the recognized amount of any non-controlling interest of the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill; and
- (iv) if the fair value of the consideration transferred is less than the fair value of the net assets acquired, the difference is recognized directly in the consolidated statements of comprehensive loss as a bargain purchase gain.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

#### (b) Revenue recognition:

Revenue represents the fair value of consideration received or receivable from customers for licenses and services provided by the Company, net of discounts and sales taxes. The Company's revenue is derived primarily from licensing of software products under non-cancellable license agreements and the provision of related professional services, including installation, integration and post-contract customer support ("PCS").

The Company's software license agreements are multiple-element arrangements as they may also include professional services and PCS. Multiple-element arrangements are recognized as the revenue for each unit of accounting is earned based on the relative fair value of each unit of accounting as determined by objective evidence of prices or by using the residual method, whereby the discount, if any, is allocated to the delivered item being the software license. A delivered element is considered a separate unit of accounting if it has value to the customer on a stand-alone basis, and delivery or performance of the undelivered elements is considered probable and substantially under the Company's control. If these criteria are not met, revenue for the arrangement as a whole is accounted for as a single unit of accounting.

Revenue from the license of software involving significant implementation or customization essential to the functionality of the software is recognized under contract accounting using the percentage-of-completion method to measure the progress to completion, with consideration for customer acceptance provisions, the timing of payments and the Company's history with similar arrangements. The Company uses the ratio of incurred labour hours to estimated total labour hours as the measure of its progress to completion on each contract. Revisions in estimates are included in profit or loss in the year in which changes occur in the circumstances on which the estimates were based or as a result of new information.

License revenue, when services are not deemed essential to the functionality of the software, is recognized when the Company has an executed agreement, the software has been delivered, acceptance is probable, the amount of the fee to be paid by the customer can be reliably measured, and the collection of the related receivable is deemed probable from the outset of the arrangement.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

Professional services revenue, including implementation and customization of software is recognized by the stage of completion of the customer arrangement at the consolidated statements of financial position dates determined using the percentage-of-completion method noted above. Installation and integration services revenue, when deemed not essential to the functionality of the software, is recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers.

PCS revenue is recognized ratably over the term of the support agreement based on the price charged for the same or similar PCS when sold in stand-alone PCS renewals with customers, as substantiated by contractual renewal rates and the Company's PCS renewal experience. Revenue not recognized in profit or loss under this policy is classified as deferred revenue in the consolidated statements of financial position when amounts have been billed in advance.

The Company also derives software license revenue from subscription-based arrangements. Subscription revenue is recognized rateably over the applicable customer contract term when delivery has occurred, the sales price is fixed and determinable and collection is reasonably assured.

Revenue from sales through reseller arrangements is recognized when the software license is sold to the end-user customer, and when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. These customers generally do not have rights of return. Sales of software licenses in which the Company acts as an agent are presented on a net basis in the consolidated statements of comprehensive loss as net license reseller revenue.

Amounts are generally billable upon reaching certain performance milestones, as defined by individual contracts. Billings rendered in advance of performance under contracts are recorded as deferred revenue.

#### (c) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and highly liquid instruments with original maturities of three months or less that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(d) Allowance for doubtful accounts:

The recoverability of the accounts receivable balances is assessed at each reporting date and an allowance for doubtful accounts is deducted from the asset's carrying value if the asset is not considered fully recoverable. Any change in the allowance is recognized within general and administrative costs in the consolidated statements of comprehensive loss.

(e) Property and equipment:

Property and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization is recognized over the estimated useful lives of the assets using the following bases and annual rates:

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Office equipment	Declining balance	30%
Computer hardware	Declining balance	30%
Computer software	Declining balance	100%
Leasehold improvements	Straight line	Over shorter of estimated useful life and lease term

---

Upon disposition, the cost and related accumulated depreciation and accumulated impairment losses, if any, are removed from the accounts and the resulting gain or loss is reflected in profit or loss. Expenditures for maintenance and repairs are charged to expense as incurred.

Assets under capital leases are initially recorded at the present value of the minimum lease payment at the inception of the lease.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(f) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as an expense in the year in which they are incurred. Development costs that are expected to provide future benefits with reasonable certainty and meet all the criteria for deferral are capitalized. No development costs have been capitalized at December 31, 2012 or 2011.

(g) Investment tax credits:

The Company is entitled to certain non-refundable Canadian investment tax credits ("ITCs") for qualifying research and development activities performed in Canada. The ITCs are accounted for as a reduction of the related expenditures for items expensed in the statements of comprehensive loss or as a reduction of the related asset's cost for items capitalized in the statements of financial position when the amount is reliably estimable and realization is reasonably assured.

(h) Goodwill and intangible assets:

(i) Goodwill:

Goodwill is measured at cost less any subsequent impairment in value.

Transaction costs, other than those associated with the issuance of debt and equity securities that the Company incurs in connection with the business combination, are expensed as incurred.

(ii) Intangible assets:

Intangible assets are measured at cost less accumulated amortization, where applicable, and accumulated impairment losses.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

Intangible assets acquired on a business combination are measured at their acquisition date estimated fair value. The Company uses the income approach to value acquired customer relationships and non-competition intangible assets. The income approach is a valuation technique that calculates the fair value of an intangible asset based on the estimated cash flows that the asset can be expected to generate over its estimated useful life.

The Company utilizes the discounted cash flow methodology which is a form of the income approach that begins with a forecast of the annual cash flows that a market participant would expect the intangible asset to generate over a discrete projection period. The forecasted cash flows for each of the years in the discrete projection period are then converted to their present value equivalent using a rate of return appropriate for the risk of achieving the intangible assets' projected cash flows, again, from a market participant's perspective. The present value of the forecasted cash flows, net of tax, are then added to the present value of the residual value of the intangible assets (if any) at the end of the discrete projection period to arrive at a conclusion with respect to the fair value of the intangible assets.

The useful lives of intangible assets are assessed as either finite or indefinite. The Company currently does not hold any intangible assets with indefinite lives.

Finite life intangible assets are amortized from the date of acquisition and amortization is recognized in the consolidated statements of comprehensive loss on a straight-line basis over the estimated useful life of the asset, since this most closely reflects the expected usage and pattern of consumption of the future economic benefits embodied in the asset.

Amortization is provided over the following useful lives of intangible assets:

Asset	Basis	Useful life
Customer relationships	Straight line	4 years
Non-competition agreements	Straight line	Life of agreement

---

Residual values and the useful lives of the assets are reviewed at each year end, and revised as necessary.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(i) Impairment:

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment at least annually even if there is no indication of impairment, and the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates largely independent cash in-flows (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset, or its CGU, exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis. Impairment losses are recognized in the consolidated statements of comprehensive loss.

An impairment loss in respect of goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the impairment loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(j) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(ii) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided.

(iii) Incentive compensation plans:

The Company has an annual incentive compensation plan with senior executives under which certain amounts are payable over a three-year period. In addition, the Company has a retention bonus plan for certain employees that will be paid over a period of two to three years. In such instances, the amounts payable more than 12 months after the reporting date are reported as a non-current liability and discounted to their present value. The costs of these plans are recognized in the year in which the compensation is earned. The discount rate used is the yield at the reporting date on AA credit-rated bonds or similar instruments that have maturity dates approximating the payment terms of the plan.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(k) Share-based payment transactions:

(i) Share-based payment plan:

The Company has a share-based payment plan under which the Company issues stock options. Stock options generally vest over a four-year vesting period with 25% of the options vested and exercisable after the first year and the remainder vested and exercisable in 12 equal quarterly instalments over the remaining three years. The Company applies a fair value method of accounting to each instalment of stock options granted to employees.

The grant date fair value of stock options granted to employees is recognized as share-based compensation expense, with a corresponding increase to contributed surplus, over the period that the employees become unconditionally entitled to the stock options. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period. Compensation cost is recognized so that each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation expense is recognized for options that are forfeited and have not met the service requirement for vesting. When options are exercised, the proceeds as well as the related amount in contributed surplus are credited to share capital. The Company uses the Black-Scholes option pricing model to determine fair value of stock options at the grant date. Measurement inputs include the price of shares on the measurement date, exercise price of the option, expected volatility, weighted average expected life of the option (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate.

(ii) Deferred share unit ("DSU") plan:

The Company has a DSU plan under which the Company issues DSUs for directors' annual remuneration which will be settled in cash. These DSUs meet the definition of a financial liability and, based on the expected timing of payment, are recorded as non-current liabilities. The initial measurement of the liability and compensation costs for these awards is based on the fair value of the award at the date of the grant. Subsequently, the awards are re-measured at each reporting date and the change in the Company's liability, due to changes in the fair value of the award prior to the settlement date, are recognized in profit or loss in the period incurred. The payment amount is established as of the exercise date of the award.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(l) Loss per share:

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the loss for the year by the sum of the weighted average number of common shares outstanding and the dilutive common share equivalents outstanding during the year. Common share equivalents consist of the shares issuable upon exercise of stock options and shares issuable upon exercise of common share unit options calculated using the treasury stock method. Common share equivalents are not included in the calculation of the weighted average number of shares outstanding for diluted loss per share when the effect would be anti-dilutive.

(m) Income taxes:

Income tax expense comprises current and deferred income tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current income tax is the expected income tax payable or receivable on the taxable income or loss for the year using income tax rates enacted or substantively enacted at the reporting date, and any adjustments to income tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in profit or loss in the year that includes the enactment or substantive enactment date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

#### (n) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies at the reporting dates are translated into the functional currency at the exchange rates at those dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated at rates of exchange at each transaction date. Revenue and expenses are translated at rates of exchange in effect at the time of the transactions, except to the extent they relate to items translated at historical rates, in which case, historical rates are applied. Foreign exchange gains or losses on translation are recognized in profit or loss.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

The assets and liabilities of the Company's foreign operations for which the Canadian dollar is not the functional currency are translated at the rate of exchange in effect at the balance sheet dates. Revenue and expenses are translated at the relevant average monthly exchange rates. The resulting unrealized exchange gain or loss is included in accumulated other comprehensive loss within shareholders' equity.

(o) Lease payments:

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

(p) Financial instruments:

(i) Recognition, classification and measurement:

Financial assets are recognized in the consolidated statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

Financial instruments are, for measurement purposes, grouped into classes. The classification depends on the purpose and is determined at initial recognition.

(a) Held-for-trading:

The Company has classified its cash equivalents and short-term investments as held-for-trading. Held-for-trading financial investments are subsequently measured at fair value and all gains and losses are included in profit or loss in the year in which they arise. Short-term investments consist of instruments with original maturities greater than three months but less than one year when purchased.

(b) Loans and receivables:

Loans and receivables which comprise accounts receivable are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

(c) Other financial liabilities:

The Company has classified its accounts payable and accrued liabilities and obligations under capital leases as other financial liabilities. Financial liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method.

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and liability simultaneously.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

#### (ii) Impairment of financial instruments:

A financial asset carried at amortized cost is considered impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### (iii) Share capital:

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(q) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions also include onerous contracts, which are recognized when the expected benefits to be derived by the Company from a contract are lower than unavoidable cost of meeting its obligations under the contract. Provisions are measured at the estimated future cash flows required to settle the present obligation, based on the most reliable evidence available at the reporting date. The estimated cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization of the discount is recognized as finance cost.

(r) Finance income and finance costs:

Finance income comprises interest income on cash equivalents and short-term investments recognized in profit or loss as it accrues, using the effective interest method. Finance costs comprise interest expense on borrowings that are recognized in profit or loss.

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether foreign currency movements are in a net gain or net loss position.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(s) Recent accounting pronouncements:

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. In particular, the following relevant new and amended standards and interpretations are required to be implemented for financial years beginning on or after January 1, 2013, unless otherwise noted:

(i) IFRS 9, Financial Instruments ("IFRS 9"):

IFRS 9 replaces International Accounting Standard ("IAS") 39, Financial Instruments - Recognition and Measurement, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing and uncertainty of an entity's future cash flows. This new standard is effective for the financial years commencing January 1, 2015. The Company is assessing the impact of this new standard on its consolidated financial statements.

(ii) IFRS 10, Consolidated Financial Statements ("IFRS 10"):

IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. It requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company is assessing the impact of this new standard on its consolidated financial statements.

(iii) IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12"):

IFRS 12 establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The Company is assessing the impact of this new standard on its consolidated financial statements.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

### 3. Significant accounting policies (continued):

(iv) IFRS 13, Fair Value Measurement ("IFRS 13"):

IFRS 13 defines fair value, provides guidance in a single IFRS framework for measuring fair value and identifies the required disclosures pertaining to fair value measurement. The Company is assessing the impact of this new standard on its consolidated financial statements.

(v) IAS 1, Presentation of Financial Statements ("IAS 1"):

IAS 1 has been amended to enhance the presentation of other comprehensive income ("OCI") in the consolidated financial statements, primarily by requiring the components of OCI to be presented separately for items that may be reclassified to the consolidated statements of comprehensive loss from those that remain in shareholders' equity. These amendments are effective for the financial years commencing after July 1, 2012. The Company does not expect any material impact of these amendments on its consolidated financial statements.

(vi) IAS 32, Financial Instruments - Offsetting Financial Assets and Financial Liabilities ("IAS 32"):

IAS 32 has been amended to provide further clarification on the application of the offsetting requirements. These amendments are effective for the financial years commencing January 1, 2014. The Company is assessing the impact of the amendments on its consolidated financial statements.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

#### 4. Business combination:

On November 1, 2012 ("Acquisition Date"), the Company, under a share purchase agreement ("Agreement"), acquired all of the outstanding common shares of Broadstreet, a privately held company based in Toronto, Ontario that offers services in data governance and management, data conversion and integration, data analytics and business intelligence, and mobile solution development; thereby further enhancing the Company's offerings and diversifying the Company's customer base.

Under the terms of the agreement, the Company will pay total consideration of up to \$8,162 to the selling shareholders of Broadstreet, determined based on the closing trading price of the Company's common shares on the acquisition date, to be settled in a combination of 54% cash, financed from cash on hand, and 46% common shares of the Company.

The components of the total consideration are as follows:

- (a) On the Acquisition Date, the Company paid cash of \$3,240 and issued 527,905 common shares at a closing trading price of \$4.40 per common share, or \$2,323. As set forth in the Agreement, the common shares issued are held in escrow for a period of two years from the Acquisition Date, with 50% of these common shares to be released at the first anniversary and the remaining 50% to be released at the end of the two-year period.
- (b) A portion of the total consideration up to a maximum of \$2,192, payable in 54% cash and 46% common shares, is subject to an earn-out arrangement over the earn-out period ending December 31, 2013. The earn-out is determined based on multiple post-acquisition period revenue targets as specified in the Agreement. In addition to the revenue targets, the earn-out arrangement is contingent upon the continued employment of the selling shareholders of Broadstreet during the earn-out period. In the event of resignation or termination of the selling shareholders of Broadstreet with cause from the Company during the earn-out period, the proportionate earn-out amounts will be automatically considered forfeited.

Management has determined these earn-out payments represent compensation for post-combination services to be recognized over the earn-out period and therefore, has excluded this amount from the purchase consideration for the purposes of acquisition accounting. Accordingly, the estimated earn-out obligation will be accreted up to its expected amount with any changes in such estimate accounted for during the period prior to settlement.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

#### 4. Business combination (continued):

- (c) An amount of \$175 in cash will be paid as retention bonuses with respect to the retention of certain Broadstreet employees for a period that extends up to December 31, 2013 ("retention period"). Continued employment with the Company is a condition for receiving the retention bonus at the end of the retention period.

Management has determined the retention bonus payments to be compensation for post-combination services which will be recognized over the retention period and, therefore, has excluded this amount from the purchase consideration for the purposes of acquisition accounting.

- (d) An amount of \$135 in cash will be paid and 22,012 common shares of the Company will be issued to the Broadstreet employees who completed a cashless exercise of their unvested Broadstreet stock options into Broadstreet common shares prior to the Acquisition Date. These amounts are subject to a vesting period ending December 31, 2013. Continued employment with the Company is a condition for receiving these amounts at the end of the vesting period. Management has determined these obligations represent financial liabilities consistent with compensation for post-combination services to be recognized over the vesting period and therefore, has excluded these amounts from the purchase consideration for the purposes of acquisition accounting.

Therefore, based on the above, management has determined that the purchase consideration for the acquisition of Broadstreet, which is subject to acquisition accounting, is \$5,563.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

#### 4. Business combination (continued):

The following table summarizes the estimated fair values of the identifiable assets acquired and liabilities assumed as part of the Broadstreet acquisition:

---

Assets acquired:	
Cash	\$ 180
Accounts receivable	2,773
Prepaid expenses and other assets	15
Income tax receivable	146
Property and equipment	45
Intangible assets	2,526
	<hr/>
	5,685
Liabilities assumed:	
Bank indebtedness	1,276
Accounts payable and accrued liabilities	1,810
Deferred revenue	7
Deferred income tax liabilities	669
	<hr/>
	3,762
Identified net assets acquired	1,923
Goodwill (a)	3,640
	<hr/>
Total purchase consideration	<hr/>
	\$ 5,563

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 4. Business combination (continued):

The Company will determine and finalize the working capital adjustments, if any, as specified in the share purchase agreement as it obtains the information necessary to complete the measurement process. Any changes resulting from the facts and circumstances that existed as of the Acquisition Date will result in retrospective adjustments to the provisional amounts recognized at the Acquisition Date. The acquisition was accounted for using the acquisition method in accordance with IFRS 3 with the results of operations consolidated with those of the Company effective November 1, 2012.

- (a) Goodwill is calculated as the difference between the acquisition date fair value of the consideration transferred and the provisional fair values assigned to the assets acquired and liabilities assumed. None of the goodwill is expected to be deductible for tax purposes. The goodwill recorded on the business combination represents the following:
- (i) the value of the going-concern elements of the existing Broadstreet business (that is, the higher rates of return on the assembled net assets compared to if the net assets had been acquired separately);
  - (ii) intangible assets that do not qualify for separate recognition (for instance, the assembled workforce); and
  - (iii) cost savings, operating synergies and other benefits expected to result from combining the operations of the Company and Broadstreet.

The Company incurred acquisition-related costs of \$59 relating to professional fees and due diligence costs. These have been included in general and administrative expenses in the consolidated statements of comprehensive loss.

Pro forma disclosure:

The acquisition of Broadstreet contributed revenue of \$1,913 and net income of \$108 during the year ended December 31, 2012. If the acquisition would have occurred on January 1, 2012, management estimates that consolidated revenue would have been \$33,519 and consolidated loss for the year would have been \$17,656 as compared to the amounts reported in the consolidated statements of comprehensive loss for the year.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 5. Cash and cash equivalents and short-term investments:

	2012	2011
Cash and cash equivalents:		
Bank balances	\$ 2,821	\$ 1,205
Call deposits	43,442	55,013
	<u>\$ 46,263</u>	<u>\$ 56,218</u>
Short-term investments:		
Bank deposit notes	\$ –	\$ 4,068

The Company's exposure to interest rate risk is discussed in note 17(e).

## 6. Accounts receivable:

	2012	2011
Accounts receivable, gross	\$ 9,758	\$ 4,251
Allowance for doubtful accounts	(245)	(123)
	<u>\$ 9,513</u>	<u>\$ 4,128</u>

The accounts receivable are regularly reviewed for objective evidence of impairment. For the year ended December 31, 2012, general and administrative expenses include bad debt expense of \$122 (2011 - \$101).

The aging of the gross accounts receivables at each reporting date was as follows:

	2012	2011
Current	\$ 4,512	\$ 2,828
Past due 1 - 90 days	3,495	662
Past due > 91 days	1,751	761
	<u>\$ 9,758</u>	<u>\$ 4,251</u>

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 6. Accounts receivable (continued):

The change in the allowance for doubtful accounts was as follows:

	2012	2011
Balance, beginning of year	\$ 123	\$ 22
Charges	122	101
Write-offs	–	–
Balance, end of year	\$ 245	\$ 123

The Company's exposure to credit risk is discussed in note 17(b).

## 7. Prepaid expenses and other assets:

	2012	2011
Prepaid expenses	\$ 319	\$ 249
Indirect taxes receivable	–	712
Ontario Co-op credits receivable	329	322
Deposits	–	110
Other	344	252
	\$ 992	\$ 1,645

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 8. Property and equipment:

### (a) Cost:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, January 1, 2011	\$ 412	\$ 1,411	\$ 68	\$ 190	\$ 697	\$ 2,778
Additions	528	606	51	207	2,193	3,585
Balance, December 31, 2011	940	2,017	119	397	2,890	6,363
Additions	22	243	6	87	–	358
Acquisition through business combination	2	36	2	5	–	45
Balance, December 31, 2012	\$ 964	\$ 2,296	\$ 127	\$ 489	\$ 2,890	\$ 6,766

### (b) Accumulated depreciation and amortization:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, January 1, 2011	\$ 71	\$ 524	\$ 10	\$ 160	\$ 155	\$ 920
Depreciation and amortization for the year	94	348	22	93	290	847
Balance, December 31, 2011	165	872	32	253	445	1,767
Depreciation and amortization for the year	147	363	24	131	465	1,130
Balance, December 31, 2012	\$ 312	\$ 1,235	\$ 56	\$ 384	\$ 910	\$ 2,897

### (c) Carrying amounts:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, December 31, 2011	\$ 775	\$ 1,145	\$ 87	\$ 144	\$ 2,445	\$ 4,596
Balance, December 31, 2012	652	1,061	71	105	1,980	3,869

At December 31, 2012, the Company had assets under capital lease with a cost of nil (2011 - \$283) and accumulated depreciation of nil (2011 - \$185). Interest on capital lease obligations for the year ended December 31, 2012 was \$1 (2011 - \$3).

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
 (Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 9. Intangible assets and goodwill:

(a) Cost:

	Intangible assets			Total
	Goodwill	Customer relationships	Non-compete agreements	
Balance, January 1, 2012	\$ –	\$ –	\$ –	\$ –
Acquisition through business combination	3,640	2,026	500	2,526
<b>Balance, December 31, 2012</b>	<b>\$ 3,640</b>	<b>\$ 2,026</b>	<b>\$ 500</b>	<b>\$ 2,526</b>

(b) Amortization and impairment losses:

	Intangible assets			Total
	Goodwill	Customer relationships	Non-compete agreements	
Balance, January 1, 2012	\$ –	\$ –	\$ –	\$ –
Amortization for the year	–	84	42	126
<b>Balance, December 31, 2012</b>	<b>\$ –</b>	<b>\$ 84</b>	<b>\$ 42</b>	<b>\$ 126</b>

(c) Carrying amounts:

	Intangible assets			Total
	Goodwill	Customer relationships	Non-compete agreements	
<b>Balance, December 31, 2012</b>	<b>\$ 3,640</b>	<b>\$ 1,942</b>	<b>\$ 458</b>	<b>\$ 2,400</b>

The Company is managed as one operating segment based on how financial information is produced internally for the purposes of making operating decisions and, therefore, is representative of a single CGU.

In assessing the goodwill for impairment, the Company compared the recoverable amount, being its quoted equity market capitalization and the carrying value of its net assets. No impairment charges have arisen as a result of the review performed as at December 31, 2012.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 9. Intangible assets and goodwill (continued):

Reasonably possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below its carrying value.

## 10. Other non-current assets:

Other non-current assets include rental deposits of \$260 (2011 - \$260) for the leased office premises which are released at specified dates during the lease term which expires in 2017.

## 11. Accounts payable and accrued liabilities:

	2012	2011
Trade payables	\$ 2,209	\$ 717
Employee and director compensation payable	4,572	4,243
Accrued expenses	1,338	898
	<u>\$ 8,119</u>	<u>\$ 5,858</u>

The employee and director compensation payable includes \$801 (2011 - \$1,053) which has been classified under non-current liabilities on the consolidated statements of financial position.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 12. Provisions:

	Earn-out obligation	Other	Total
Balance, January 1, 2012	\$ –	\$ –	\$ –
Provisions made during the year	384	44	428
Provisions used during the year	–	–	–
Provisions reversed during the year	–	–	–
<b>Balance, December 31, 2012</b>	<b>\$ 384</b>	<b>\$ 44</b>	<b>\$ 428</b>

### (a) Earn-out obligation:

The Company reviewed the revenue targets assigned for the earn-out period ending December 31, 2013 and assessed the probability of achieving such targets and, based on current revenue estimates or forecasts, the Company has recorded \$384 in profit or loss for the year ended December 31, 2012. Management will continue to monitor and assess the estimates at each reporting balance sheet date. Refer to business combination (note 4(b)).

### (b) Other:

Other provisions includes individual provisions for retention bonuses and cash to be paid to the Broadstreet employees who completed a cashless exercise of their unvested Broadstreet stock options into Broadstreet common shares prior to the Acquisition Date. Refer to business combination (note 4(d)).

## 13. Obligations under capital leases:

During 2009, the Company entered into a capital lease for computer hardware. This lease was repayable in blended monthly payments of \$6 with imputed interest at 5.78% and expired in August 2012. During the year ended December 31, 2012, the Company paid \$41 (2011 - \$67) in lease payments.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 14. Share capital:

### (a) Authorized:

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. No preferred shares have been issued.

Each common share of the Company entitles its holder to one vote at all meetings of shareholders subject to certain restrictions with respect to the voting rights.

Each common share of the Company is also entitled to receive dividends if, as and when declared by the Board of Directors. Holders of common shares will participate in any distribution of net assets of the Company upon liquidation, dissolution or winding up of the Company on an equal basis per share, but subject to the rights of the holders of the preferred shares.

### (b) Issued:

21,318,265 common shares (2011 - 20,664,079)

- (i) On March 28, 2011, in preparation of its initial public offering ("IPO"), the Company entered into loan and share pledge agreements with certain employees and officers ("Exercise Persons") in order to reduce the amount of the Company's outstanding option pool. The participating employees were issued an interest-free share purchase loan to exercise all of their granted and outstanding options as of March 28, 2011, which were originally scheduled to vest on or prior to December 31, 2011. The Company provided \$3,745 in share purchase loans to facilitate the issuance of 970,898 common shares as a result of the acceleration involving the exercise of the applicable employee stock options. On May 2, 2011, as part of the March 28, 2011 share and loan pledge agreements, the Company provided an additional \$97 in share purchase loans to facilitate the issuance of 28,123 common shares as a result of the acceleration involving the exercise of the applicable employee stock options.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 14. Share capital (continued):

These shares acquired upon exercise of the employee stock options are pledged as security against the share purchase loans and are held as security by the Company until such time as the individual loans are repaid. The share purchase loans are immediately due and payable to the Company upon the sale of the common shares or upon the termination of employment, subject to certain conditions being met. Despite their legal form, the share purchase loans are accounted for on the same basis as a grant of a stock option under IFRS. As such, for accounting purposes, the common shares issued and the share purchase loans granted under the loan and share pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances.

For the year ended December 31, 2012, the Company received repayment of \$143 (2011 - \$39) for 32,812 common shares (2011 - 9,687) and also cancelled 6,250 common shares (2011 - nil) amounting to \$38 (2011 - nil) with respect to the share loan and pledge agreements. At December 31, 2012, 950,272 common shares (2011 - 989,334) for proceeds of \$3,622 (2011 - \$3,803) based on the grant-date value of the loans were held as security by the Company with respect to the share purchase loan and pledge agreements.

The Company and the Exercise Persons entered into non-binding retention bonus agreements, pursuant to which each Exercise Person was allocated a retention bonus in the amount of their respective share purchase loan, which could vest in a future period at the sole discretion of the Board of Directors and may be paid in instalments over a three-year period. For the year ended December 31, 2012, the Company expensed \$1,162 (2011 - nil) relating to these retention bonuses for certain Exercise Persons. The amounts paid to the Exercise Persons under these bonus agreements are not required to be used to repay the share purchase loans.

- (ii) On May 18, 2011, the Company completed its IPO on the Toronto Stock Exchange. The Company issued 4,850,000 common shares from treasury at a price of \$9 per share for gross proceeds of \$43,650. The Company incurred expenses, including underwriters' fees, of \$3,888 relating to the IPO, which have been included within shareholders' equity as a reduction of share capital.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 15. Share-based payment arrangements:

At December 31, 2012, the Company had the following share-based payment arrangements:

(a) Stock option plan:

- (i) On April 21, 2011, the Board of Directors approved an amended stock option plan (the "2011 Option Plan"), effective upon closing of the IPO, for the purpose of recognizing contributions made by employees, officers and others by granting to them options to purchase common shares of the Company. All options granted under the previous option plan and all new options granted under the 2011 Option Plan are now governed by the 2011 Option Plan. The 2011 Option Plan reduces the contractual life of the options to seven years for new options issued; the options issued prior to the 2011 Option Plan will continue to have a contractual life of 10 years. The 2011 Option Plan also mandates that the maximum aggregate number of outstanding options shall not exceed 10% of the outstanding common shares at the relevant grant date.

The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

	2012	2011
Risk-free interest rates	1.4%	2%
Expected life (years)	4.6	4.6
Volatility	43%	29%
Forfeiture rate	7%	5%
Dividend yield	—	—

The weighted average grant date fair value of options granted during the year was \$2.52 (2011 - \$2.39). The grant date fair value of the options granted during the year ended December 31, 2012, net of forfeitures, was \$571 (2011 - \$803), which will be recognized over the vesting period ranging up to four years.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 15. Share-based payment arrangements (continued):

- (ii) The total share-based payment expense and the amount credited to contributed surplus, including the adjustments relating to the acceleration of the employee stock options, as discussed below, for the year ended December 31, 2012 was \$1,065 (2011 - \$2,012).
- (iii) The Company accelerated the vesting of certain employee stock options enabling them to be exercised as of March 28, 2011 (note 14(b)(i)). As a result, the Company recorded additional share-based payment expense of nil (2011 - \$243), for the year ended December 31, 2012.
- (iv) In April, 2010, the Company issued 208,696 stock options to the agents of the private placement transaction that took place in 2010. These options were issued at a strike price of \$5.75 and expired on March 31, 2012. In March 2012, the agents exercised 110,469 options for gross proceeds of \$635. In October 2011, the agents of the private placement exercised 98,087 options for gross proceeds of \$564. The remaining 140 options expired unexercised on March 31, 2012.
- (v) With respect to the 22,012 common shares expected to be issued to former Broadstreet employees, management has used the acquisition date closing trading price of \$4.40 per common share for valuation purposes. As a result, for the year ended December 31, 2012, the Company recorded an expense of \$14 recorded as share based payment expense and credited contributed surplus. Refer to business combination (note 4(d)).

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
 (Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 15. Share-based payment arrangements (continued):

The following table outlines the activity for stock options for the year ended December 31, 2012 and 2011:

	2012		2011	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of year	1,391	\$ 6.08	2,174	\$ 4.60
Granted	280	6.87	398	8.51
Exercised	(22)	3.17	(1,012)	3.83
Cancelled	(229)	6.46	(169)	6.20
<b>Outstanding, end of year</b>	<b>1,420</b>	<b>6.20</b>	<b>1,391</b>	<b>6.08</b>
Exercisable	540	\$ 5.59	139	\$ 4.04

At December 31, 2012, the following table provides the outstanding options at their respective exercise prices and the related weighted average remaining contractual life:

Exercise price	Number outstanding (000s)	Weighted average remaining contractual life (years)
\$2.50 - 3.50	201	6.33
\$3.51 - 4.50	24	6.78
\$4.51 - 5.50	41	6.64
\$5.51 - 6.50	652	7.53
\$6.51 - 7.50	34	6.29
\$7.51 - 8.50	302	5.94
\$8.51 - 9.00	166	5.37
	<b>1,420</b>	<b>6.70</b>

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 15. Share-based payment arrangements (continued):

### (b) Deferred share units:

The Company grants DSUs to the independent members of the Board of Directors as their annual remuneration for the services rendered on the Company's Board. These DSUs vest immediately and can only be settled in cash and will be paid when the Board member is no longer rendering service to the Company. Accordingly, the Company has treated these arrangements as cash-settled awards and has recorded the changes in the fair value of the award in the profit or loss using the Company's share price as at December 31, 2012. The amount of the award payable is based on the number of units outstanding multiplied by the share price of the Company at the date of the payout. A summary of the DSUs outstanding is as follows:

	2012		2011	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of year	30	\$ 210	–	\$ –
Granted	56	275	30	225
Exercised	–	–	–	–
Changes in fair value of the award	–	(130)	–	(15)
Outstanding, end of year	86	\$ 355	30	\$ 210

These amounts are included in non-current liabilities on the consolidated statements of financial position.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 16. Income taxes:

(a) Deferred income tax expense (recovery):

	2012	2011
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	\$ (82)	\$ –
Change in unrecognized losses and deductible temporary differences	(587)	–
	<u>\$ (669)</u>	<u>\$ –</u>

The Company recorded a deferred income tax recovery of \$689 in the year ended December 31, 2012 (2011 - nil). The deferred income tax recovery relates to the recognition of previously unrecognized tax assets of the Company, as a result of the deferred tax liability recognized on the intangible assets acquired on the acquisition of Broadstreet. No other deferred tax recovery on losses is recorded in profit or loss and will not be until, in the opinion of management, it is probable that the deferred tax assets will be realized.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 16. Income taxes (continued):

### (b) Income tax rate reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to loss before income taxes. These differences result from the following items:

	2012	2011
Loss before income taxes	\$ (17,104)	\$ (7,543)
Combined basic federal and provincial income tax rates	26.5%	28.3%
Computed expected tax recovery	\$ (4,533)	\$ (2,135)
Increase resulting from:		
Impact due to change in future tax rates	(470)	251
Recognition of previously unrecognized losses and temporary differences	(587)	–
Current year's losses and other differences not recognized	3,998	1,371
Non-deductible items	923	513
Income tax recovery	\$ (669)	\$ –

The statutory income tax rate was 26.5% for 2012 compared to 28.3% for 2011. The decrease in the statutory rate was a result of reductions in the federal and provincial Canadian income tax rates.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
 (Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 16. Income taxes (continued):

(c) Recognized and unrecognized deferred income taxes:

Deferred income taxes reflect the net income tax effects of temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the amounts used for income tax purposes.

The movements of deferred income tax assets and liabilities for the years indicated are as follows:

	SR&ED pool carryforward	Property and equipment	Total
Deferred income tax asset balance, January 1, 2011	\$ 519	\$ –	\$ 519
Recognized in profit or loss	(519)	–	(519)
Deferred income tax asset balance, December 31, 2011	–	–	–
Recognized in profit or loss	587	49	636
Deferred income tax asset balance, December 31, 2012	\$ 587	\$ 49	\$ 636

	Refundable ITCs	Intangible assets	Property and equipment	Total
Deferred income tax liability balance, January 1, 2011	\$ (353)	\$ –	\$ (166)	\$ 519
Recognized in profit or loss	353	–	166	(519)
Deferred income tax liability balance, December 31, 2011	–	–	–	–
Additions from business combinations	–	(669)	–	(669)
Recognized in profit or loss	–	33	–	33
Deferred income tax liability balance, December 31, 2012	\$ –	\$ (636)	\$ –	\$ (636)

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 16. Income taxes (continued):

The amount of deductible temporary differences and unused tax losses for which no deferred income tax assets have been recognized are as follows:

	2012	2011
Non-capital loss and SR&ED carryforwards	\$ 20,529	\$ 9,728
Financing costs	2,870	3,861
Other deductible temporary differences	5,947	1,158
	<u>\$ 29,346</u>	<u>\$ 14,747</u>

Non-capital loss carryforwards will expire in 2032, while SR&ED pool carryforward and other temporary deductible differences have an unlimited carryforward pursuant to current tax laws.

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible.

Management considers the scheduled reversals of deferred income tax liabilities, the character of the deferred income tax assets and available tax planning strategies in making this assessment.

### (d) Investment tax credits:

The Company claims research and development deductions and related ITCs for income tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). These claims are subject to a technical and expenditure review by Canada Revenue Agency ("CRA"). Any differences between the amounts approved by CRA and the amount recorded in the financial statements are recognized in the year of determination. Although the Company has used its best judgment and understanding of the related income tax legislation in determining the amounts and timing of ITCs receipts, it is possible that the amounts could change by a material amount in the near term depending on review and audit by CRA.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 16. Income taxes (continued):

The total amount of ITCs recognized were \$256 (2011 - \$972), which were recorded as a reduction of research and development expenses. The current year amounts related to additional recovery of ITCs received for prior year eligible expenditures than previously estimated in profit or loss.

The Company has \$5,395 of federal non-refundable ITCs that can be carried forward to reduce federal income tax otherwise payable. Those credits expire between 2027 and 2032.

## 17. Financial instruments and capital management:

### (a) Classification and fair values of financial instruments:

The following table sets out the Company's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at December 31, 2012 and 2011:

Classification	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash equivalents	\$ 43,442	\$ 43,442	\$ 55,013	\$ 55,013
Short-term investments	—	—	4,068	4,068
Loans and receivables:				
Accounts receivable	9,513	9,513	4,128	4,128
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	8,119	8,119	5,858	5,858
Provisions	428	428	—	—
Obligations under capital leases	—	—	41	41

The carrying values of cash equivalents, short-term investments, accounts receivable and accounts payable and accrued liabilities and provisions approximate their fair values due to the short-term nature of these financial instruments.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 17. Financial instruments and capital management (continued):

The carrying value of the obligations under capital leases approximates its fair value based on the borrowing rates currently available to the Company.

Fair value measurements:

The Company provides disclosure of the three level hierarchy that reflects the significance of the inputs used in making the fair value measurement. The three levels of fair value hierarchy based on the reliability of inputs are as follows:

- Level 1 - inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 - inputs are based on observable market data, either directly or indirectly other than quoted prices; and
- Level 3 - inputs are not based on observable market data.

In the tables below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. The Company has no financial assets or financial liabilities measured using Level 2 or Level 3 inputs.

Financial assets measured at fair value as at December 31, 2012 and 2011 in the financial statements are summarized below. The Company has no financial liabilities measured at fair value.

2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 43,442	\$ -	\$ -	\$ 43,442
	\$ 43,442	\$ -	\$ -	\$ 43,442

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 17. Financial instruments and capital management (continued):

2011	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 55,013	\$ –	\$ –	\$ 55,013
Short-term investments	4,068	–	–	4,068
	\$ 59,081	\$ –	\$ –	\$ 59,081

There were no transfers of financial assets during the years between any of the levels.

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of these risks as at December 31, 2012:

### (b) Credit risk:

Credit risk represents the financial loss that the Company would experience if a counterparty to a financial instrument, in which the Company has an amount owing from the counterparty, failed to meet its obligations in accordance with the terms and conditions of its contracts with the Company.

The Company's credit risk is primarily attributable to its accounts receivable and short-term investments. The Company reviews the components of these accounts on a regular basis to evaluate and monitor this risk. The Company's customers are generally large financially established organizations which limits the credit risk relating to the customers. In addition, credit reviews by the Company take into account the counterparty's financial position, past experience and other factors.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 17. Financial instruments and capital management (continued):

The following table summarizes the number of customers that individually comprise greater than 10% of total revenue or total accounts receivable and their aggregate percentage of the Company's total revenue and accounts receivable:

	Revenue	
	Number of customers	% of total
Year ended December 31, 2012	4	78
Year ended December 31, 2011	3	82

	Accounts receivable	
	Number of customers	% of total
As at December 31, 2012	2	34
As at December 31, 2011	3	65

### (c) Liquidity risk:

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due or can do so only at excessive cost. The Company's growth is financed through a combination of the cash flows from operations and the issuance of equity. One of management's primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that the Company has sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The majority of the Company's financial liabilities comprise accounts payable and accrued liabilities. Given the Company's available cash and other liquid resources as compared to its liabilities, management assesses the Company's liquidity risk to be low.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 17. Financial instruments and capital management (continued):

### (d) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which is the U.S. dollar. Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. The Company has foreign currency exposure with respect to cash equivalents, short-term investments, accounts receivable and accounts payable denominated in U.S. dollars. It is also exposed to foreign currency risk on revenue and expenses where it invoices or procures in U.S. dollars. During the year ended December 31, 2012, the Company recorded a foreign exchange loss (gain) of \$213 (2011 - \$(788)). At December 31, 2012, U.S. dollar denominated net monetary assets totalled approximately U.S. \$17,200 (2011 - U.S. \$8,754).

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on the Company's net monetary assets could change by approximately \$1,752 due to the fluctuation and this would be recorded in the consolidated statements of comprehensive loss.

### (e) Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash equivalents and short-term investments. The impact of change in interest rates is not expected to be significant.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 17. Financial instruments and capital management (continued):

### (f) Capital management:

The Company defines capital that it manages as the aggregate of its shareholders' equity, which comprises issued capital, contributed surplus and deficit.

The Company's objective in managing capital is to ensure sufficient liquidity to pursue its growth strategy, fund research and development to enhance existing product offerings as well as develop new ones, undertake selective acquisitions and providing sufficient resources to meet day-to-day operating requirements, while at the same time taking a conservative approach towards financial leverage and management of financial risk. In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the up-front cost of taking on new customers. The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process. The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and shareholders' equity.

The Company does not have any externally imposed capital requirements.

## 18. Related party transactions:

### (a) Key management personnel compensation:

The key management personnel are defined as executive officers of the Company, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Company. The following table outlines the total compensation for key management personnel for the year:

	2012	2011
Salaries and other short-term employee benefits	\$ 1,774	\$ 1,556
Share-based payments	145	440
Long-term incentive and retention plans	683	747
	<u>\$ 2,602</u>	<u>\$ 2,743</u>

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 18. Related party transactions (continued):

The Company has entered into arrangements with certain executive officers for termination and change of control benefits. Upon termination without cause by the Company, these officers are entitled to termination benefits of up to two years' base salary, annual bonus and lump sum cash payment in respect of any unvested stock options. All of the foregoing payments are subject to applicable statutory deductions.

### (b) Loan and share pledge agreements:

The Company issued interest-free share purchase loans in the amount of nil (2011 - \$1,478) to its executive officers to exercise all of the stock options that were originally scheduled to vest on or prior to December 31, 2011 and issued 276,250 common shares. During the year ended December 31, 2012, \$75 (2011 - nil) was repaid relating to 12,500 common shares (2011 - nil). These shares are pledged as security against the share purchase loans and are held as security by the Company until such time as the individual loans are repaid.

### (c) Transactions with other related parties:

The Company's Chief Executive Officer is a director of Canadian Association for People-Centred Health ("CAPCH"), a not-for-profit organization, and is actively involved in planning, directing and controlling the activities of CAPCH. During the year ended December 31, 2012, the Company expensed cash contributions of \$111 (2011 - \$36), which is included in sales and marketing, to support the activities of CAPCH.

## 19. Finance income:

---

	2012	2011
Interest on cash and cash equivalents	\$ 612	\$ 418

---

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

## 20. Loss per share:

The following table sets forth the calculation of basic and diluted loss per share:

	2012	2011
Numerator:		
Loss for the year	\$ (16,435)	\$ (7,543)
Denominator:		
Weighted average number of shares:		
Basic	19,880	17,751
Loss per share:		
Basic	\$ (0.83)	\$ (0.42)
Diluted	(0.83)	(0.42)

During the year ended December 31, 2012, there were 376 (2011 - 721) weighted average outstanding stock options excluded from the computation of diluted loss per share as they were anti-dilutive.

## 21. Expenses by nature:

The components of the Company's expenses include the following:

	2012	2011
Salaries and other short-term employee benefits	\$ 33,253	\$ 28,728
Equity-settled share-based payments	1,065	2,012
Cash-settled share-based payments	145	210
Total personnel costs	34,463	30,950
Sales and marketing expense	883	842
Office rent expense	2,231	1,379
Professional, consulting and recruiting costs	1,025	1,505
Technology and communication expenses	1,072	1,043
Depreciation and amortization expense	1,256	847
Other*	2,759	2,425
Total operating expenses	\$ 43,689	\$ 38,991

\*Includes office expenses, travel and entertainment expenses and other general and administrative costs.



# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 22. Contractual obligations:

- (a) In March 2012, the Company entered into agreements to participate in a two-year Canadian healthcare initiative with other parties, which, in part, results in the recognition of revenue from software licenses, services and maintenance over eight quarters commencing in the second quarter of 2012. As part of this initiative, the Company committed to a cash contribution of \$1,431, which was paid in the third quarter of 2012, and to provide in-kind contributions through the duration of the agreements, relating to project strategy, planning and management. The majority of these in-kind contributions are funded through the Company's existing cost structure.
- (b) In March 2012, the Company entered into an agreement with Beth Israel Deaconess Medical Center to digitize the Passport to TRUST program. The agreement is for a period of two years and the Company is committed to make financial contributions of U.S. \$1,056 over the term of the agreement and will expense these as research and development expenses, as incurred, in profit or loss. For the year ended December 31, 2012, the Company incurred \$420 of research and development expenses relating to this agreement.
- (c) During the year ended December 31, 2011, the Company entered into an amended lease agreement with its landlord for additional office space to be assumed in 2011 through an operating lease. The remaining lease term as at December 31, 2012 is approximately five years.

Total approximate future minimum annual lease payments for the leased office premises as at December 31, 2012 are as follows:

---

Less than 1 year	\$ 1,030
Between 1 and 5 years	4,839
More than 5 years	—
	<hr/>
	\$ 5,869

---

In addition, the Company is responsible for additional taxes, maintenance and other direct charges with respect to its leased office premises. The additional amount is expected to be approximately \$1,520 for 2013.

# NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)  
(Expressed in thousands of Canadian dollars, except per share amounts)

Years ended December 31, 2012 and 2011

---

## 23. Segment reporting:

The Company is organized and operates as one operating segment for purposes of making operating decisions and assessing performance. The chief operating decision makers evaluate performance, make operating decisions and allocate resources based on financial data consistent with the presentation in these consolidated financial statements.

The following information provides the required enterprise-wide disclosures:

The Company's revenue by geographic areas is as follows:

	2012	2011
United States of America	\$ 20,729	\$ 23,033
Canada	4,276	5,168
Europe	1,184	2,048
	<u>\$ 26,189</u>	<u>\$ 30,249</u>

All of the Company's assets are located in Canada and virtually all of the Company's expenses are incurred in Canada.

## 24. Guarantees:

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated but is typically limited to the proceeds from sales contracts. Historically, the Company has made no payments relating to these indemnifications, and the Company is not subject to any pending litigation related to such guarantees.

## 25. Subsequent event:

Effective January 1, 2013, the Company completed an intra-company amalgamation of NexJ and Broadstreet, its wholly owned subsidiary. The amalgamated entity continues as NexJ Systems Inc. This intra-company amalgamation does not impact these consolidated results reported by the Company.