

Condensed Interim Consolidated Financial Statements  
(Expressed in Canadian dollars)

## **NEXJ SYSTEMS INC.**

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

# NEXJ SYSTEMS INC.

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

	September 30, 2013	December 31, 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 28,284	\$ 46,263
Accounts receivable	8,838	9,513
Income taxes receivable	–	146
Prepaid expenses and other assets	1,866	992
Total current assets	38,988	56,914
Non-current assets:		
Property and equipment	3,402	3,869
Intangible assets	1,833	2,400
Goodwill	3,640	3,640
Other assets	260	260
Total non-current assets	9,135	10,169
Total assets	\$ 48,123	\$ 67,083
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,794	\$ 7,318
Deferred revenue	4,301	5,069
Provisions (note 4)	304	–
Total current liabilities	9,399	12,387
Non-current liabilities:		
Accrued liabilities	586	801
Provisions (note 4)	–	428
Deferred revenue	–	268
Total non-current liabilities	586	1,497
Total liabilities	9,985	13,884
Shareholders' equity:		
Share capital (note 5)	83,099	83,061
Share purchase loans (note 5)	(3,622)	(3,622)
Contributed surplus (note 6)	5,428	4,859
Deficit	(46,767)	(31,099)
Total shareholders' equity	38,138	53,199
Total liabilities and shareholders' equity	\$ 48,123	\$ 67,083

See accompanying notes to the condensed interim consolidated financial statements.

# NEXJ SYSTEMS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
<b>Revenue:</b>				
License fees	\$ 283	\$ 1,051	\$ 858	\$ 3,225
Net license reseller fees	53	–	103	–
Professional services	4,757	3,712	14,514	12,336
Maintenance and support	1,530	1,319	4,460	3,776
	<u>6,623</u>	<u>6,082</u>	<u>19,935</u>	<u>19,337</u>
<b>Expenses*:</b>				
Professional service costs	3,573	2,401	11,893	7,638
Research and development, net	3,326	3,865	10,756	11,223
Sales and marketing	1,412	1,912	6,519	6,139
General and administrative	2,101	2,125	7,017	6,621
	<u>10,412</u>	<u>10,303</u>	<u>36,185</u>	<u>31,621</u>
Loss from operations	(3,789)	(4,221)	(16,250)	(12,284)
Foreign exchange gain (loss)	(80)	(547)	246	(415)
Finance income	90	154	336	452
Finance costs	–	–	–	(2)
	<u>10</u>	<u>(393)</u>	<u>582</u>	<u>35</u>
Loss before income taxes	(3,779)	(4,614)	(15,668)	(12,249)
Income taxes	–	–	–	–
<b>Net loss and comprehensive loss</b>	<b>\$ (3,779)</b>	<b>\$ (4,614)</b>	<b>\$ (15,668)</b>	<b>\$ (12,249)</b>
<b>Loss per share (note 7):</b>				
Basic and diluted	\$ (0.19)	\$ (0.23)	\$ (0.77)	\$ (0.62)
<b>*Share-based payment expense has been included in expenses as follows:</b>				
Professional service costs	\$ 59	\$ 54	\$ 184	\$ 181
Research and development, net	5	85	140	307
Sales and marketing	34	(122)	124	44
General and administrative	39	90	134	300
	<u>\$ 137</u>	<u>\$ 107</u>	<u>\$ 582</u>	<u>\$ 832</u>

See accompanying notes to the condensed interim consolidated financial statements.

# NEXJ SYSTEMS INC.

Condensed Interim Consolidated Statement of Changes in Equity  
(Expressed in thousands of Canadian dollars and shares)  
(Unaudited)

Nine months ended September 30, 2013	Common shares		Share	Contributed	Deficit	Total shareholders' equity
	Number*	Amount	purchase loans	surplus		
Balance, January 1, 2013	20,368	\$ 83,061	\$ (3,622)	\$ 4,859	\$ (31,099)	\$ 53,199
Comprehensive loss	–	–	–	–	(15,668)	(15,668)
Share-based payment expense (note 6)	–	–	–	582	–	582
Exercise of stock options	10	38	–	(13)	–	25
<b>Balance, September 30, 2013</b>	<b>20,378</b>	<b>\$ 83,099</b>	<b>\$ (3,622)</b>	<b>\$ 5,428</b>	<b>\$ (46,767)</b>	<b>\$ 38,138</b>

\*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements (note 5) are not recognized as outstanding until such time as payments are received on the loan balances. At September 30, 2013, 950 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 21,328.

Nine months ended September 30, 2012	Common shares		Share	Contributed	Deficit	Total shareholders' equity
	Number*	Amount	purchase loans	surplus		
Balance, January 1, 2012	19,675	\$ 79,831	\$ (3,803)	\$ 4,034	\$ (14,664)	\$ 65,398
Comprehensive loss	–	–	–	–	(12,249)	(12,249)
Share-based payment expense (note 6)	–	–	–	832	–	832
Exercise of stock options	15	88	–	(41)	–	47
Repayment of share purchase loans by employees (note 5)	33	–	143	–	–	143
Cancellation of shares pursuant to share purchase loans (note 5)	–	(38)	38	–	–	–
Exercise of stock options by agents of private placement (note 6)	110	820	–	(185)	–	635
<b>Balance, September 30, 2012</b>	<b>19,833</b>	<b>\$ 80,701</b>	<b>\$ (3,622)</b>	<b>\$ 4,640</b>	<b>\$ (26,913)</b>	<b>\$ 54,806</b>

\*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements (note 5) are not recognized as outstanding until such time as payments are received on the loan balances. At September 30, 2012, 950 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 20,783.

See accompanying notes to the condensed interim consolidated financial statements.

# NEXJ SYSTEMS INC.

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

	Nine months ended September 30,	
	2013	2012
Cash flows from (used in) operating activities:		
Loss for the period	\$ (15,668)	\$ (12,249)
Adjustments for:		
Depreciation and amortization	1,366	850
Share-based payment expense	582	832
Finance income	(336)	(452)
Finance costs	–	2
Foreign exchange loss (gain)	(190)	198
Change in non-cash operating working capital:		
Accounts receivable	675	(3,654)
Prepaid expenses and other assets	(874)	2,857
Income taxes receivable	146	–
Accounts payable and accrued liabilities and provisions	(2,863)	(876)
Deferred revenue	(1,036)	3,617
Net cash flows used in operating activities	(18,198)	(8,875)
Cash flows from (used in) financing activities:		
Obligations under capital leases	–	(41)
Exercise of employee stock options	25	47
Exercise of agent stock options	–	635
Repayment of share purchase loans	–	143
Interest paid	–	(2)
Net cash flows from financing activities	25	782
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(332)	(275)
Redemption of short-term investments	–	4,005
Interest received	336	452
Net cash flows from investing activities	4	4,182
Effects of exchange rates on cash and cash equivalents	190	(135)
Decrease in cash and cash equivalents	(17,979)	(4,046)
Cash and cash equivalents, beginning of period	46,263	56,218
Cash and cash equivalents, end of period	\$ 28,284	\$ 52,172
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid for	\$ –	\$ 51

See accompanying notes to the condensed interim consolidated financial statements.

# NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

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## 1. Reporting entity:

NexJ Systems Inc. (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 cloud-based software, delivering enterprise solutions primarily for the financial services, insurance and health care industries, as well as offers data governance and master data management, data conversion and integration, data analytics and business intelligence, and mobile solution development services.

## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, as issued by the International Accounting Standards Board and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements as at and for the years ended December 31, 2012 and 2011, with the exception of those new accounting standards that were adopted on January 1, 2013 as more fully described in note 2(c).

The notes presented in these condensed interim consolidated financial statements include in general only significant changes and transactions occurring since the Company's most recent year end, and are not fully inclusive of all disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the years ended December 31, 2012 and 2011.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 6, 2013.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 2. Basis of preparation (continued):

### (b) Basis of presentation:

These condensed consolidated interim financial statements include the accounts of the Company and its wholly owned foreign subsidiary, Broadstreet Data Solutions America, Inc. (together referred to as the "Company"). Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the condensed consolidated interim financial statements. These condensed consolidated interim financial statements have been prepared mainly under the historical cost basis. Other measurement bases used are described in the applicable notes.

### (c) Recently adopted accounting pronouncements:

These condensed consolidated interim financial statements have been prepared on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements as at and for the years ended December 31, 2012 and 2011, with the exception of the following new accounting standards which the Company adopted and are effective commencing January 1, 2013:

- IFRS 10, Consolidated Financial Statements;
- IFRS 12, Disclosures of Interests in Other Entities; and
- IFRS 13, Fair Value Measurement.

Refer to the Company's 2012 annual audited consolidated financial statements for a description of each accounting pronouncement. The adoption of these accounting standards did not have significant impact on the condensed consolidated interim financial statements for the nine months ended September 30, 2013. Disclosures required under IFRS 13 for condensed consolidated interim financial statements have been included in note 8.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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### 3. Business combination:

The Company will finalize the estimated fair values of the identifiable assets acquired and liabilities assumed as part of the November 1, 2012 ("acquisition date") Broadstreet Data Solutions Inc. ("Broadstreet") acquisition when it determines and finalizes 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 adjustments to the provisional amounts recognized at the acquisition date.

### 4. Provisions:

	Earn-out obligations	Other	Total
Balance, January 1, 2013	\$ 384	\$ 44	\$ 428
Provisions recorded	675	194	869
Provisions reversed	(985)	(5)	(990)
Provisions used	–	(3)	(3)
Balance, September 30, 2013	\$ 74	\$ 230	\$ 304

#### (a) Earn-out obligation:

As part of the acquisition of Broadstreet, 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 estimated earn-out is determined based on multiple post-acquisition period revenue targets as specified in the share purchase 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.



# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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#### 4. Provisions (continued):

As at the acquisition date, the Company determined these contingent earn-out payments represent compensation for post-combination services to be recognized over the earn-out period and, accordingly, excluded these estimated amounts from the purchase consideration transferred to Broadstreet for the purposes of acquisition accounting. Accordingly, the estimated earn-out obligation will be accreted up to its expected fair value amount with any pro rata changes in such estimate accounted for during the period prior to settlement.

For the three and nine months ended September 30, 2013, the Company recorded a net reversal of \$745 and \$310 under professional services costs and sales and marketing in profit or loss, respectively (2012 - nil) as a result of the following:

- During the three months ended September 30, 2013, two of the selling shareholders of Broadstreet, of which one was an officer of the Company, were no longer entitled to the rights under the share purchase agreement and accordingly \$454 of estimated earn-out was reversed in the period. In addition, the Company waived a portion of the working capital deficiency due from these shareholders, which existed at the acquisition date and was deemed to have an estimated fair value of nil.
- The Company reduced the estimated earn-out as at September 30, 2013 based on the review of the assigned revenue targets and assessed the probability of achieving such targets and accordingly \$291 of estimated earn-out was reversed in the period.

Management will continue to monitor and assess the estimates up to December 31, 2013.

#### (b) Other:

Other provisions include individual provisions for employee retention bonuses and amounts to be paid to certain former Broadstreet employees who completed a cashless exercise of their unvested Broadstreet stock options into Broadstreet common shares prior to the acquisition date. Accordingly, for the three and nine months ended September 30, 2013, the Company recorded a net charge of \$63 and \$189 under professional services costs and sales and marketing in profit or loss, respectively (2012 - nil). The payout is contingent upon their continued employment with the Company up to December 31, 2013.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 5. Share capital:

On March 28, 2011, the Company entered into loan and share pledge agreements with certain employees and officers ("Exercise Persons"). The participating employees were given an interest-free share purchase loan to exercise all of their stock options held 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 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.

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 similar to the 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 nine months ended September 30, 2012, the Company received repayment of \$143 for 32,812 common shares as well as cancelled 6,250 common shares amounting to \$38 with respect to the share purchase loan and pledge agreements. The Company did not enter into such transactions in the three and nine months ended September 30, 2013. At September 30, 2013, 950,272 common shares (2012 - 950,272) for proceeds of \$3,622 (2012 - \$3,622) were held as security by the Company with respect to the share loan and pledge agreements.

In addition, the Company and the Exercise Persons entered into a non-binding retention bonus agreement dated March 28, 2011, 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 Company and may be paid in instalments over a three-year period.

For the three and nine months ended September 30, 2013, the Company expensed \$171 and \$529 (2012 - \$152 and \$448) relating to these retention bonuses for certain Exercise Persons.

# NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

## 6. Share-based payment arrangements:

At September 30, 2013, the Company had the following share-based payment arrangements:

### (a) Stock option plan:

- (i) The total share-based payment expense and the amount credited to contributed surplus for the three and nine months ended September 30, 2013 was \$137 and \$582 (2012 - \$107 and \$832).
- (ii) In April 2010, the Company granted 208,696 stock options to the agents of a private placement transaction that occurred in the same period. In October 2011, the agents exercised 98,087 options. From the remaining unexercised agent options in March 2012, the agents exercised 110,469 options for gross proceeds of \$635 and the remaining 140 options expired on March 31, 2012.

The following table outlines the activity for stock options for the nine months ended September 30, 2013 and 2012:

	2013		2012	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of period	1,420	\$ 6.22	1,391	\$ 6.08
Granted	478	3.63	262	7.06
Exercised	(10)	2.51	(15)	3.26
Cancelled	(320)	5.21	(180)	6.45
Outstanding, end of period	1,568	5.66	1,458	6.24
Exercisable, end of period	740	\$ 6.06	454	\$ 5.42

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 6. Share-based payment arrangements (continued):

At September 30, 2013, 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	144	5.66
\$3.51 - \$4.50	378	6.43
\$4.51 - \$5.50	26	5.90
\$5.51 - \$6.50	607	6.76
\$6.51 - \$7.50	18	5.53
\$7.51 - \$8.50	258	5.18
\$8.51 - \$9.00	137	4.63
	1,568	6.11

### (b) Deferred share units ("DSUs"):

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. In August, 2013, the Company granted an additional 96,492 DSUs amounting to \$275. As at September 30, 2013, 182,026 DSUs (2012 - 85,534) were issued and outstanding. 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, for the three and nine months ended September 30, 2013, has recorded the changes in the fair value of \$145 and \$248 (2012 - \$36 and \$87), respectively, in the profit or loss using the Company's share price. 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.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 6. Share-based payment arrangements (continued):

The following table outlines the activity for DSUs for the nine months ended September 30, 2013 and 2012:

	2013		2012	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of period	86	\$ 355	30	\$ 210
Granted	96	275	56	275
Exercised	–	–	–	–
Changes in fair value of the award	–	(248)	–	(87)
<b>Outstanding, end of period</b>	<b>182</b>	<b>\$ 382</b>	<b>86</b>	<b>\$ 398</b>

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

## 7. Loss per share:

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
Numerator:				
Loss for the period	\$ (3,779)	\$ (4,614)	\$ (15,668)	\$ (12,249)
Denominator:				
Weighted average number of shares:				
Basic and diluted	20,378	19,814	20,372	19,814
Loss per share:				
Basic and diluted	\$ (0.19)	\$ (0.23)	\$ (0.77)	\$ (0.62)

During the three and nine months ended September 30, 2013, there were 31 and 26 (2012 - 290 and 386) weighted average outstanding stock options excluded from the computation of diluted loss per share as they were anti-dilutive.

# NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

## 8. 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 September 30, 2013 and December 31, 2012:

Classification	September 30, 2013		December 31, 2012	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash equivalents	\$ 25,333	\$ 25,333	\$ 43,442	\$ 43,442
Loans and receivables:				
Accounts receivable	8,838	8,838	9,513	9,513
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	5,380	5,380	8,119	8,119
Provisions	304	304	428	428

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

### 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.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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Three and nine months ended September 30, 2013 and 2012  
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## 8. Financial instruments and capital management (continued):

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 September 30, 2013 and December 31, 2012 in the condensed consolidated interim financial statements are summarized below. The Company has no additional financial liabilities measured at fair value initially other than those recognized in connection with business combination.

September 30, 2013	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 25,333	\$ –	\$ –	\$ 25,333

December 31, 2012	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 43,442	\$ –	\$ –	\$ 43,442

There were no transfers of financial assets during the periods 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 September 30, 2013:

### (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.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 8. Financial instruments and capital management (continued):

The Company's credit risk is primarily attributable to its accounts receivable. 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.

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
Three months ended September 30, 2013	3	48
Nine months ended September 30, 2013	3	46
Three months ended September 30, 2012	4	89
Nine months ended September 30, 2012	4	85

	Accounts receivable	
	Number of customers	% of total
As at September 30, 2013	3	65
As at December 31, 2012	2	34



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

### (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 business activities are 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.

### (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, 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 three and nine months ended September 30, 2013, the Company recorded a foreign exchange gain (loss) of \$(80) and \$246 (2012 - \$(547) and \$(415)), respectively. At September 30, 2013, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$6,026 (2012 - U.S. \$18,981).

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 \$606 due to the fluctuation and this would be recorded in profit or loss.

# NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)  
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## 8. Financial instruments and capital management (continued):

### (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. The impact of change in interest rates is not expected to be significant.

### (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.

# NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

## 9. 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 condensed consolidated interim financial statements.

The following information provides the required enterprise-wide disclosures.

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

	Three months ended September 30,		Nine months ended September 30,	
	2013	2012	2013	2012
United States of America	\$ 3,530	\$ 4,976	\$ 11,381	\$ 15,351
Canada	2,927	675	8,107	2,816
Europe	166	431	447	1,170
	<u>\$ 6,623</u>	<u>\$ 6,082</u>	<u>\$ 19,935</u>	<u>\$ 19,337</u>

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

## 10. Related party transactions:

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 three and nine months ended September 30, 2013, the Company expensed cash contributions of \$34 and \$102 (2012 - \$34 and \$77), respectively, which is included in sales and marketing, to support the activities of CAPCH.

# NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2013 and 2012  
(Unaudited)

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## 11. Contractual obligations:

- (a) In March 2012, the Company entered into agreements to participate in a two-year Canadian health care 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 these are being expensed as research and development expenses, as incurred, in profit or loss. For the three and nine months ended September 30, 2013, the Company incurred \$137 and \$407 (2012 - \$132 and \$288) of research and development expenses relating to this agreement.