

## NEXJ SYSTEMS INC.

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*This management's discussion and analysis of financial condition and results of operations (the "MD&A") should be read in conjunction with the unaudited condensed interim consolidated financial statements for the quarter ended March 31, 2016, which we prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A should also be read in conjunction with our annual MD&A and audited annual consolidated financial statements for the years ended December 31, 2015 and 2014 and related notes, which we prepared in accordance with IFRS and are available on SEDAR at [www.sedar.com](http://www.sedar.com). Certain information included herein is forward-looking and based upon assumptions and anticipated results that are subject to uncertainties. Should one or more of these uncertainties materialize or should the underlying assumptions prove incorrect, actual results may vary significantly from those expected. See "Caution Regarding Forward-Looking Statements" and "Risk Factors". The information in this discussion is provided as of April 28, 2016, unless we indicate otherwise.*

*Where we say "we", "us", "our", "NexJ" or "the Company", we mean NexJ Systems Inc.*

*Unless otherwise indicated, all dollar amounts are expressed in thousands of Canadian dollars, except per share amounts and percentages.*

#### **Caution Regarding Forward Looking Statements**

*This MD&A contains forward-looking statements that relate to the Company's current expectations and views of future events.*

*In some cases, these forward-looking statements can be identified by words or phrases such as "may", "will", "expect", "anticipate", "aim", "estimate", "intend", "plan", "seek", "believe", "potential", "continue", "is/are likely to" or the negative of these terms, or other similar expressions intended to identify forward-looking statements. The Company has based these forward-looking statements on its current expectations and projections about future events and financial trends that it believes may affect its financial condition, results of operations, business strategy and financial needs.*

*Forward-looking statements are based on certain assumptions and analysis made by the Company based on its experience and perception of historical trends, current conditions and expected future developments and other factors it believes are appropriate, and are subject to risks and uncertainties. Although we believe that the assumptions underlying these statements are reasonable, they may prove to be incorrect. Given these risks, uncertainties and assumptions, current and prospective investors should not place undue reliance on these forward-looking statements.*

*The forward-looking statements made in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A. Except as required by law, the Company undertakes no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.*

*This MD&A should be viewed in conjunction with the Company's other publicly available filings, copies of which can be obtained electronically on SEDAR at [www.sedar.com](http://www.sedar.com).*

## **Risks and Uncertainties**

A complete description of the risks and uncertainties affecting the Company is included in the most recently filed Annual Information Form. Additional risks and uncertainties not presently known to us or that we currently consider immaterial also may impair our business and operations and cause the price of the common shares to decline. If any of the noted risks actually occur, our business may be harmed and the financial condition and results of operation may suffer significantly. In that event, the trading price of the common shares could decline, and shareholders may lose all or part of their investment.

## **Non-IFRS Measures**

The Company prepares its financial statements in accordance with IFRS. This MD&A also includes certain measures which have not been prepared in accordance with IFRS such as Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share used to evaluate the Company's operating performance as a complement to results provided in accordance with IFRS.

The term "Adjusted EBITDA" refers to net income (loss) before adjusting for loss from discontinued operation, share-based payment expense, depreciation and amortization, impairment charge on non-financial assets, impairment of loan receivable, lease-exit charges, net, earn-out expense (recovery), foreign exchange gain (loss), finance income, finance costs, and income taxes. The loss from discontinued operation represents the results of operations of the Healthcare business, a separate segment of the Company, which was spun off on January 25, 2016 and which have been excluded from Adjusted EBITDA because the Company is no longer in the Healthcare business and the Healthcare business's current and historical results do not represent the operating performance of the Company for the quarter ended March 31, 2016. The Adjusted EBITDA for the comparative period in 2015 has also been adjusted accordingly. The impairment of loan receivable has been excluded from Adjusted EBITDA because the loan advanced to the Healthcare business is an interim loan until such time the Healthcare business secures financing and does not represent the operating performance of the Company for the quarter ended March 31, 2016. "Adjusted EBITDA margin" refers to the percentage that Adjusted EBITDA for any period represents as a portion of total revenue for that period.

"Adjusted EBITDA per share" refers to Adjusted EBITDA divided by the weighted average number of Common Shares outstanding, which we calculate on a basic and diluted basis.

We believe that Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share are useful supplemental information as they provide an indication of the results generated by the Company's main business activities prior to taking into consideration how those activities are financed and taxed and also prior to taking into consideration the loss from discontinued operation as well as expenses related to share-based payment expense, impairment charge on non-financial assets, impairment of loan receivable, lease-exit charges, net, estimated earn-out obligations and the other items listed above. Accordingly, we believe that these measures may also be useful to investors in enhancing their understanding of the Company's operating performance. See "Results of Operations – Adjusted EBITDA".

Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share are not measures recognized by IFRS and do not have standardized meanings prescribed by IFRS. Therefore, Adjusted EBITDA, Adjusted EBITDA margin and Adjusted EBITDA per share may not be comparable to similar measures presented by other issuers. Investors are cautioned that Adjusted EBITDA and Adjusted EBITDA margin should not be construed as an alternative to net income (loss) as determined in accordance with IFRS.

## **Overview**

NexJ provides enterprise customer management solutions to the financial services industry. Our solutions include industry-specific customer relationship management (CRM) for multi-channel engagement and collaboration; customer process management (CPM) for client onboarding and KYC; and customer data management (CDM) to deliver a holistic view of customers across line of business and regional data silos. Our solutions integrate information from multiple systems into a unified view to help firms better understand and share information about their customers to increase loyalty, drive cross-sell and improve the customer experience.

NexJ solutions deliver vertical market functionality to help firms save time and improve service by automating best practices at every stage of the customer lifecycle, sell more by providing the right offer at the right time over

the right channel, and be 'one firm' by providing a unified customer experience across all lines of business and channels.

Our revenue consists primarily of software license fees, professional service fees, and maintenance and support fees. All NexJ products are licensed either as a one-time purchase (perpetual license) or subscription fee. NexJ's solutions can be deployed on premise, hosted in an external data center and hosted as a managed service. Pricing for NexJ's on-premise solution is based on a perpetual software license model. Professional services revenue consists of fees charged for customization, implementation, integration and ongoing services associated with our software products. Maintenance revenue consists of fees charged for customer support on our software products post-delivery. Maintenance fee arrangements generally include ongoing customer support and rights to certain unspecified product updates. Our customers typically purchase a combination of software, maintenance and professional services, although the type, mix and quantity of each vary by customer.

Professional services expenses consist primarily of the costs directly related to revenues including internal costs required to deliver professional services and maintenance.

Research and development expenses include personnel and related costs associated with our research and development efforts.

Sales and marketing expenses consist primarily of personnel and related costs associated with our sales and marketing functions, including commissions, direct marketing campaigns, webinars, public relations and other promotional activities.

General and administrative expenses include personnel and related costs associated with the administration of our business, rental of office space, legal and professional fees and insurance.

### **Key Performance Indicators**

Key performance indicators that we use to manage our business and evaluate our financial results and operating performance include: revenue, expenses, adjusted EBITDA, adjusted EBITDA margin, adjusted EBITDA per share, and net income (loss). We evaluate our performance on these metrics by comparing our actual results to management budgets, forecasts and prior period performance.

### **Plan of Arrangement – Healthcare Spin-off and discontinued operation**

On January 25, 2016, the Company, NexJ Health Inc. and NexJ Health Holdings Inc., a newly incorporated company, completed a Plan of Arrangement (the "Arrangement") pursuant to the Canada Business Corporation Act. Upon the effective date of the Arrangement, the Company's shareholders received one new common share of the Company and one common share of NexJ Health Holdings Inc. for each common share of the Company held immediately prior to the Arrangement becoming effective.

As a result, the Company has presented the results of operations of the Healthcare business as a discontinued operation in the condensed interim consolidated financial statements for the quarter ended March 31, 2016. The comparative figures in the condensed interim consolidated statements of comprehensive loss and cash flows are represented as if the operation had been discontinued from the start of the comparative year. The summary results of operations table below derived from the unaudited condensed interim consolidated financial statements discloses the Healthcare business as a discontinued operation with the net of revenue and expenses from the Healthcare business shown as a one line "Loss from discontinued operation" below Adjusted EBITDA.

### **First Quarter Financial Highlights**

- Revenue increased by 30% to \$8,088 for the quarter ended March 31, 2016 from \$6,218 in the comparative period in 2015.
- Adjusted EBITDA (as defined above) was \$282, or \$0.01 per share (basic and diluted), for the quarter ended March 31, 2016 as compared to an Adjusted EBITDA loss of \$788 or \$(0.04) per share (basic and diluted) for the comparative period in 2015.
- Net loss was \$2,028 or \$(0.10) per share (basic and diluted) for the quarter ended March 31, 2016 as compared to a loss of \$1,662, or \$(0.08) per share (basic and diluted), in the comparative period in 2015.

## Results of Operations

The following table sets forth a summary of our results of operations for the quarter ended March 31, 2016 and 2015:

(In thousands of dollars, except percentages and per share amounts)

	Quarter ended March 31,		Period-Over-Period Change	
	2016	2015	\$	%
<b>Revenue*</b> .....	\$8,088	\$6,218	1,870	30
<b>Expenses</b>				
Professional services (1) .....	3,125	2,675	450	17
Research and development, net (2) .....	2,115	1,833	282	15
Sales and marketing (3) .....	1,134	1,175	(41)	(3)
General and administrative, net (4) .....	1,432	1,323	109	8
Total Expenses .....	7,806	7,006	800	11
<b>Adjusted EBITDA</b> .....	<b>282</b>	<b>(788)</b>	<b>1,070</b>	<b>136</b>
Loss from discontinued operation* .....	252	992	(740)	(75)
Impairment of loan receivable .....	641	—	641	100
Share-based payment expense .....	350	81	269	332
Depreciation and amortization .....	212	467	(255)	(55)
Foreign exchange loss (gain) .....	873	(626)	1,499	239
Finance income .....	(18)	(40)	22	55
Loss before income taxes .....	(2,028)	(1,662)	(366)	(22)
Income taxes .....	—	—	—	—
<b>Net loss</b> .....	<b>\$ (2,028)</b>	<b>\$ (1,662)</b>	<b>(366)</b>	<b>(22)</b>
Weighted average number of common shares outstanding (000's)				
Basic and diluted .....	20,300	20,459		
<b>Net loss per share</b>				
Basic and diluted .....	\$ (0.10)	\$ (0.08)		
<b>Adjusted EBITDA per share</b>				
Basic and diluted .....	\$ 0.01	\$ (0.04)		

\* The Healthcare business was spun off on January 25, 2016 and in the condensed interim consolidated statements of comprehensive loss for the quarters ended March 31, 2016 and 2015, the revenue and expenses of the Healthcare business have been classified as part of the loss from discontinued operation.

(1) Professional services for the quarter ended March 31, 2016 exclude share-based payment expense of \$101 (2015 - \$27).

(2) Research and development expenses for the quarter ended March 31, 2016 exclude share-based payment expense of \$114 (2015 - \$33).

(3) Sales and marketing expenses for the quarter ended March 31, 2016 exclude share-based payment expense of \$17 (2015 - \$6).

(4) General and administrative expenses for the quarter ended March 31, 2016 exclude share-based payment expense of \$118 (2015 - \$15), depreciation and amortization of \$212 (2015 - \$467).

	<u>As at March 31, 2016</u>	<u>As at December 31, 2015</u>
	(In thousands of dollars)	
<b>Selected Statement of Financial Position Data</b>		
Cash and cash equivalents .....	13,228	14,699
Total assets .....	26,450	29,018
Deferred revenue .....	4,920	4,382
Total non-current liabilities .....	1,279	1,186
Total liabilities .....	11,251	12,179
Total shareholders' equity .....	15,199	16,839

### *Comparison of quarters ended March 31, 2016 and 2015*

#### **Revenue**

The following table sets forth the breakdown of our revenue recognized according to revenue type and the change for the three months ended March 31, 2016 and 2015:

	<b>Quarter ended</b>		<b>Period-Over-Period</b>	
	<b>March 31,</b>		<b>Change</b>	
(In thousands of dollars, except percentages)	<u>2016</u>	<u>2015</u>	<u>\$</u>	<u>%</u>
License Fees .....	\$1,067	\$1,049	18	2
Professional services .....	5,121	3,959	1,162	29
Maintenance and support .....	1,900	1,210	690	57
Total .....	<u>\$8,088</u>	<u>\$6,218</u>	<u>1,870</u>	<u>30</u>

Total revenue for the quarter ended March 31, 2016 was \$8,088, an increase of \$1,870, or 30%, compared to \$6,218 for the comparative period in 2015.

**License fees** — License revenue for the quarter ended March 31, 2016 increased by \$18, or 2%, to \$1,067, from \$1,049 for the comparative period in 2015. The majority of the license revenue recognized for the quarter ended March 31, 2016 was due to a new customer arrangement with a major Global bank entered into in the third quarter of 2015 that will continue to deliver software licenses, professional services and maintenance revenue to the Company in the coming quarters.

For our enterprise solutions, we follow contract accounting which involves the use of the percentage of completion method for recognizing revenues relating to the combination of software licenses and professional services for customer arrangements that meet applicable accounting criteria.

**Professional services** — Professional services revenue for the quarter ended March 31, 2016 increased by \$1,162, or 29%, to \$5,121, from \$3,959 for the comparative period in 2015. The Company earned professional services revenue from the customer arrangement with a major Global bank. In addition, the incremental non-essential or post-software deployment professional services to some of our existing customers in the United States and Asia Pacific region increased for the quarter ended March 31, 2016 where software license deployment and acceptance had taken place in prior periods.

**Maintenance and support** — Maintenance and support revenues for the quarter ended March 31, 2016 increased by \$690, or 57%, to \$1,900, from \$1,210 for the comparative period in 2015. The increase in maintenance and support revenue for the quarter ended March 31, 2016 was due to the commencement of maintenance and support with respect to the customer arrangement with a major Australian bank wherein the software licenses were deployed in the fourth quarter of 2015. The increase was also due to additional software licenses purchases by existing customers in the second half of 2015 as well as a result of certain one-time hosting and support charges for a customer in the current quarter.

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

	Quarter ended March 31,	
	2016	2015
	(In thousands of dollars)	
United States of America .....	\$ 3,487	\$ 2,496
Canada .....	533	1,145
Europe.....	3,063	252
Asia Pacific.....	1,005	2,325
Total.....	<u>\$ 8,088</u>	<u>\$ 6,218</u>

### *Deferred revenue*

Deferred revenue balance at March 31, 2016 was \$4,920, comprised of \$23 from professional services arrangements and \$4,897 in annual maintenance and support revenue.

In the current quarter, we recognized revenue of \$1,576 that was deferred at December 31, 2015, comprised of \$138 from software license and professional services arrangements where progress to completion continued in the current quarter and \$1,438 from annual maintenance and support revenue.

### *Expenses*

The following table sets forth the breakdown of our expenses by category and the change for the three month periods ended March 31, 2016 and 2015:

	Quarter ended March 31,		Period-Over-Period Change	
	2016	2015	\$	%
(In thousands of dollars, except percentages)				
Professional services .....	\$ 3,125	\$ 2,675	450	17
Research and development .....	2,115	1,833	282	15
Sales and marketing .....	1,134	1,175	(41)	(3)
General and administrative .....	1,432	1,323	109	8
Total .....	<u>\$7,806</u>	<u>\$7,006</u>	<u>800</u>	<u>11</u>

Total expenses for the quarter ended March 31, 2016 increased by \$800, or 11%, to \$7,806, compared to \$7,006 over the comparative period in 2015. The increase in expenses for the quarter ended March 31, 2016 as compared to the comparative period in 2015 is primarily headcount-related. Our average employee count increased to 174 for the quarter ended March 31, 2016 from 170 in the comparative period in 2015.

**Professional services** — Professional services expenses for the quarter ended March 31, 2016 increased by \$450, or 17%, to \$3,125, from \$2,675 for the comparative period in 2015. For the quarter ended March 31, 2016, the average headcount devoted to professional services was 72 as compared to 69 for the comparative period in 2015, which resulted in an increase from the same period in the prior year. The remaining increase in the costs is mainly due to the use of contractors to supplement the full time employees to deliver the increase in the professional services revenues for the quarter ended March 31, 2016.

**Research and development** — Research and development expenses for the quarter ended March 31, 2016 increased by \$282, or 15%, to \$2,115, from \$1,833 for the comparative period in 2015. For the quarter ended March 31, 2016, the average headcount devoted to research and development was 66 as compared to 64 for the comparative period in 2015. The increase in the costs is mainly as a result of certain one-time hosting infrastructure charges for a customer.

**Sales and marketing** — Sales and marketing expenses for the quarter ended March 31, 2016 decreased by \$41, to \$1,134, from \$1,175 for the comparative period in 2015. For the quarter ended March 31, 2016, the average headcount devoted to sales and marketing was 19 as compared to 21 for the comparative period in 2015 resulting in a lower expense.

**General and administrative** — General and administrative (“G&A”) expenses for the quarter ended March 31, 2016 increased by \$109, or 8%, to \$1,432, from \$1,323 for the comparative period in 2015. For the quarter ended March 31, 2016, the average headcount devoted to general and administrative was 17 as compared to 16 in the comparative period in 2015. The increase was also due to the change in the fair value of the deferred share units previously issued to the directors as Board compensation; which was partially offset by the decrease in the rent expense as a result of the sub-lease of space.

#### ***Loss from discontinued operation***

As previously discussed, the Healthcare business was spun-off effective January 25, 2016. The Company has presented the results of the Healthcare business as a discontinued operation in the condensed interim consolidated statements of comprehensive loss for the period from January 1, 2016 to January 24, 2016 and the comparatives have been restated to show the discontinued operation separately from the continuing operations.

#### ***Impairment of loan receivable***

Pursuant to the Arrangement, the Company entered into an interim loan agreement with NexJ Health Inc. that provides that the Company will advance funds to NexJ Health Inc. as required from time to time up to a maximum of \$1,000; the loan bears annual interest at prime rate, as published by the Royal Bank of Canada. The Company advanced \$641 as of March 31, 2016. The loan receivable is repayable on the date of the closing of a rights offering or other such financing by NexJ Health Inc., or such later date as agreed to by the parties. Management evaluated the recoverability of the loan, including the financial position of NexJ Health Inc. as at March 31, 2016 and concluded that it is impaired and recorded a provision of \$641 in the condensed interim consolidated statements of comprehensive loss for the three months ended March 31, 2016.

#### ***Share-based payment expense***

For the quarter ended March 31, 2016, we recognized a share-based payment expense of \$350 compared to \$81 recognized in the comparative period of 2015. In December 2015, the Company modified its stock options plan to cancel and re-grant options to existing employees. Accordingly, the Company cancelled 682,146 stock options issued during the period from 2009 to 2012 ranging in price from \$3.50 per share to \$9.00 per share and re-granted 781,200 stock options at an exercise price of \$1.47 per share to be recognized over the two-year vesting period with the options vesting in 8 equal quarterly instalments. In addition, in the quarter ended March 31, 2016, certain stock options issued were accelerated and exercised to receive the common shares of the Company. These changes contributed to the increase in the expense for this quarter as well as a result of the manner in which the estimated fair value of share-based payments are attributed under IFRS, whereby the share-based payment expense is disproportionately attributed to the periods immediately subsequent to the grant-date as each tranche of the award is recognized over the graded vesting period.

#### ***Depreciation and amortization***

For the quarter ended March 31, 2016, depreciation of property and equipment and amortization of intangible assets decreased by \$255, or 55%, to \$212, from \$467 for the comparative period in 2015. The decrease is mainly due to the change in the estimated useful life of the intangible assets from four years to three years as a result of the impairment charge in the quarter ended December 31, 2014. The intangible assets were fully amortized in Q4, 2015.

#### ***Foreign exchange loss (gain)***

For the quarter ended March 31, 2016, our foreign exchange loss was \$873 compared to a foreign exchange gain of \$626 for the comparative period in 2015.

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and the Australian dollar. The change in the foreign exchange impact during the quarter ended March 31, 2016 was the result of fluctuations in exchange rates between the Canadian dollar (our functional and reporting currency), the U.S. dollar and the Australian dollar as well as change in the U.S. dollar and Australian dollar denominated monetary assets held by the Company. For the quarter ended March 31, 2016, the U.S. dollar weakened by approximately 6% against the Canadian dollar from C\$1.384 to C\$1.2987 as compared to the U.S. dollar strengthening by 9% against the Canadian dollar from C\$1.1601 to C\$1.2693 for the comparative period in 2015. This was further increased by the weakening of the Canadian dollar by approximately 1% against the Australian dollar from C\$1.0083 to C\$0.9957 in the first quarter of 2016.

As at March 31, 2016, U.S. dollar denominated net monetary assets were US\$10,855 as compared to US\$5,343 as at March 31, 2015. As at March 31, 2016, Australian dollar denominated net monetary assets were AU\$948 as compared to AU\$6,494 as at March 31, 2015.

**Finance income**

For the quarter ended March 31, 2016, finance income decreased by \$22 to \$18, from \$40 for the comparative period in 2015. The decrease for the quarter ended March 31, 2016 was primarily as a result of decreased average cash and cash equivalents on hand. We maintain excess cash in various bank accounts and in highly liquid instruments with low yield and low risk with short-term maturities.

**Net loss**

We reported a net loss of \$2,028, or \$(0.10) per share (basic and diluted), for the quarter ended March 31, 2016 compared to net loss of \$1,662, or \$(0.08) per share (basic and diluted), for the same period in 2015. The increase in net loss is largely due to the impairment of loan receivable from NexJ Health Inc., offset by the decrease in expenses relative to the revenues for the same period.

**Adjusted EBITDA**

Adjusted EBITDA was a profit of \$282 for the quarter ended March 31, 2016, or \$0.01 per share (basic and diluted), compared to an Adjusted EBITDA loss of \$788, or \$(0.04) per share (basic and diluted), in the comparative period in 2015. Adjusted EBITDA margin was 4% in the current quarter compared to (13%) in the same period in 2015. As the revenues of the Company grow, we expect that the expenses as a percentage of revenues will decline over time which will favourably impact the Adjusted EBITDA and Adjusted EBITDA margin. See “Non-IFRS Measures” for a description of Adjusted EBITDA and Adjusted EBITDA margin.

The following table reconciles Adjusted EBITDA to net loss:

	Quarter ended March 31,	
	2016	2015
	(in thousands of dollars, except percentages)	
<b>Net loss</b> .....	(2,028)	(1,662)
Add back:		
Loss from discontinued operation .....	252	992
Impairment of loan receivable .....	641	—
Share-based payment expense .....	350	81
Depreciation and amortization .....	212	467
Foreign exchange loss (gain) .....	873	(626)
Finance income .....	(18)	(40)
<b>Adjusted EBITDA</b> .....	<b>282</b>	<b>(788)</b>
<b>Adjusted EBITDA margin</b> .....	<b>4%</b>	<b>(13%)</b>



## Summary of Quarterly Results

The following table sets out selected financial information for each of the eight most recent quarters, the latest of which ended March 31, 2016. Our quarterly operating results have historically fluctuated significantly and may continue to fluctuate significantly in the future. Therefore, we believe that past operating results and period-to-period comparisons should not be relied upon as an indication of the Company's future performance.

	Quarters Ended							
	Mar. 31, 2016	Dec. 31, 2015	Sept. 30, 2015	Jun. 30, 2015	Mar. 31, 2015	Dec. 31, 2014	Sept. 30, 2014	Jun. 30, 2014
	(In thousands of dollars, except share figures) (Unaudited)							
Revenue*	\$8,088	\$7,891	\$7,285	\$7,186	\$6,218	\$6,257	\$5,158	\$6,894
Net income (loss) from continuing operations ....	(1,776)	288	(181)	(1,195)	(670)	(2,483)	(1,086)	(469)
Net income (loss) from discontinued operation...	(252)	(2,244)	(994)	(1,152)	(992)	(1,606)	(2,291)	(2,057)
Weighted average number of shares outstanding (000's):								
Basic and Diluted .....	20,300	20,450	20,459	20,459	20,459	20,459	20,458	20,415
Net income (loss) per share from continuing operations:								
Basic .....	\$ (0.09)	\$ 0.01	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ (0.12)	\$ (0.05)	\$ (0.02)
Diluted .....	\$ (0.09)	\$ 0.01	\$ (0.01)	\$ (0.06)	\$ (0.03)	\$ (0.12)	\$ (0.05)	\$ (0.02)
Net income (loss) per share from discontinued operation:								
Basic .....	\$ (0.01)	\$ (0.11)	\$ (0.05)	\$ (0.06)	\$ (0.05)	\$ (0.08)	\$ (0.11)	\$ (0.10)
Diluted .....	\$ (0.01)	\$ (0.11)	\$ (0.05)	\$ (0.06)	\$ (0.05)	\$ (0.08)	\$ (0.11)	\$ (0.10)

\*Revenue in the above table excludes the revenue generated by the Healthcare business. The Healthcare business was spun off on January 25, 2016 and in the condensed interim consolidated statements of comprehensive loss for the quarter ended March 31, 2016 and 2015, the revenue for the Healthcare business has been classified as part of the loss from discontinued operation.

In periods where a net loss was incurred, stock options and common shares issued pursuant to the share loan and pledge agreements were considered to be anti-dilutive and excluded from the computation of diluted loss per share.

Key factors that account for the fluctuations in quarterly results include the variability in the Company's license revenue and the impact of currency movements against the Canadian dollar. As the timing of executing larger software license arrangements changes from quarter to quarter, the impact on license revenue has been significant. The movement of the Canadian dollar against the U.S. dollar and Australian dollar has a direct impact on the Company's financial results as certain amount of our revenues are denominated in U.S. dollars and Australian dollars. As a result, in periods where the Canadian dollar strengthens against the U.S. dollar and the Australian dollar, the Company's revenues are negatively impacted.

## Liquidity and Capital Resources

As of March 31, 2016, we held cash and cash equivalents of \$13,228. We believe that ongoing operations, working capital and associated cash flows in addition to our cash resources provide sufficient liquidity to support our ongoing business operations and satisfy our obligations as they become due.

Below is a summary of our cash flows from (used in) operating, financing, and investing activities for the periods indicated:

(in thousands of dollars)	Quarter ended March 31,	
	2016	2015*
Net cash flows used in operating activities .....	\$ (421)	\$ (1,373)
Net cash flows used in discontinued operation .....	(270)	(958)
Net cash flows from financing activities .....	62	—
Net cash flows from (used in) investing activities.....	(672)	40
Effect of exchange rate changes on cash and cash equivalents .....	(170)	448
Decrease in cash and cash equivalents .....	(1,471)	(1,843)
Beginning cash and cash equivalents .....	14,699	18,298
Ending cash and cash equivalents .....	13,228	16,455

\*The Q1 2015 figures have been presented for the classification of the Healthcare business as a discontinued operation.

### ***Net cash flows used in operating activities***

We used additional cash of \$421 in operating activities for the quarter ended March 31, 2016 compared to \$1,373 for the comparative period in 2015. Of the cash used, there was net movement of \$nil in non-cash working capital with a significant change arising from an increase in deferred revenue and a decrease in accounts receivable, offset by an increases in prepaid expenses and other assets and a decrease in accounts payable and accrued liabilities period over period and the remainder from operating activities.

For the quarter ended March 31, 2015, we used cash of \$1,373 in operating activities. Of the cash used, \$763 is attributable to movements in non-cash working capital with a significant change arising from the decreases in accounts payable and accrued liabilities and deferred revenue, and increase in prepaid expenses and other assets, offset by a decrease in accounts receivable, period over period and the remainder from operating activities.

### ***Net cash flows used in discontinued operation operating activities***

We used additional cash of \$270 from operating activities of the Healthcare business prior to its spin off effective January 25, 2016. Of the cash used, \$48 is attributable to movements in non-cash working capital with a significant change arising from the increase in accounts receivable, offset by the increase in deferred revenue and decrease in prepaid expenses and other assets, and the remainder from operating activities.

We used cash of \$958 in operating activities of the Healthcare business for the quarter ended March 31, 2015, which was primarily attributable to the operating activities.

### ***Net cash flows from financing activities***

For the quarter ended March 31, 2016, net cash flows from financing activities was \$62. This consisted of proceeds from exercise of stock options of \$135 offset by the repurchase of common shares of \$48 and payment of finance lease for computer hardware of \$25.

In August, 2015, the Company applied to the Toronto Stock Exchange (“TSX”) to undertake a Normal Course Issuer Bid (“NCIB”), which was accepted by the TSX on August 12, 2015, for purchases of its Common Shares through all available markets and/or alternative trading systems, including the facilities of the TSX. The maximum number of Common Shares which could be purchased until August 23, 2016 pursuant to the NCIB, aggregated to 1,000,000 Common Shares, representing approximately 4.7% of the number of Common Shares issued and outstanding as of August 12, 2015. The actual number of Common Shares purchased and the timing of such purchases were determined by NexJ considering market conditions, stock prices, its cash position, and other factors. During the quarter ended March 31, 2016, the Company repurchased and cancelled 22,798 of its common shares through trades on TSX for an aggregate purchase price of \$48, which was recorded as a reduction of share capital.

For the quarter ended March 31, 2015, net cash used in financing activities was \$nil.

***Net cash flows from (used in) investing activities***

For the quarter ended March 31, 2016, net cash used in investing activities was \$672, which consisted of interest received of \$18, offset by the purchase of property and equipment of \$9 and the distribution of the discontinued operation to shareholders of \$40 and advances to NexJ Health Inc. of \$641.

For the quarter ended March 31, 2015, net cash from investing activities was \$40, which consisted wholly of interest received.

**Capital Management**

We define capital as the aggregate of shareholders' equity, which is comprised of issued capital, contributed surplus and deficit.

Our objective in managing capital is to ensure sufficient liquidity to pursue our growth strategy, fund research and development to enhance existing product offerings as well as develop new ones, undertake selective acquisitions and provide 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 the capital structure, we take into consideration various factors, including the growth of the business and related infrastructure and the up-front cost of taking on new customers. Our officers and senior management are responsible for managing the capital and do so through quarterly meetings and regular review of financial information. Our Board of Directors is responsible for overseeing this process. We manage 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 capital transactions.

We do not have any externally imposed capital requirements.

**Contractual Obligations**

Our contractual obligations include commitments made with respect to operating leases for office equipment, office premises and finance lease for computer equipment.

During the three months ended March 31, 2016, the Company entered into a finance lease for a period of three years for purchase of computer hardware with an estimated commitment of \$444.

**Off-Balance Sheet Transactions**

As a general practice, we have not entered into off-balance sheet financing arrangements. Except for operating leases, all of our liabilities and commitments are reflected as part of our statement of financial position.

**Transactions with Related Parties**

Pursuant to the Arrangement, the Company entered into an interim loan agreement that provides that the Company will advance funds to NexJ Health Inc. as required from time to time up to a maximum of \$1,000; the loan bears annual interest at prime rate, as published by the Royal Bank of Canada. The Company advanced \$641 as of March 31, 2016. Refer to the discussion under the heading "Impairment of loan receivable".

In addition, the Company also entered into a shared services agreement with NexJ Health Inc. under which the Company will continue to provide services and support functions relating to facilities, human resources, finance and IT services for a monthly fee agreed upon between the parties. The Company has charged \$126 for these services for the period from January 25, 2016 to March 31, 2016. The amounts are due on demand and non-interest bearing.

The terms of the agreements above and the related amounts being charged were agreed upon by the parties.

## Financial Risk Management

In the normal course of our business, we engage in operating and financing activities that generate risks in the following primary areas:

### *Foreign Currency Risk*

Foreign currency risk is the risk that fluctuations in foreign exchange rates could impact our results from operations. We are exposed to a significant amount of foreign exchange risk, primarily between the Canadian dollar, the U.S. dollar and the Australian dollar. We transact business in multiple currencies, the most significant of which are the U.S. dollar and the Australian dollar. Currently, we do not enter into foreign exchange contracts to manage this exposure, but may do so in the future. As a result, we have foreign currency exposure with respect to items denominated in foreign currencies.

If a shift in foreign currency exchange rates of 10% were to occur, the foreign exchange gain or loss on our net foreign denominated monetary assets could change by approximately \$1,505 due to the fluctuation and this would be recorded in profit or loss.

### *Credit Risk*

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

We have credit risk relating to cash and cash equivalents, which we manage by dealing with large chartered Canadian banks and investing in highly liquid investments.

In order to minimize the credit risk on accounts receivables, our extension of credit to customers involves review and approval by senior management, as well as progress payments as contracts are executed and credit checks, where deemed necessary.

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 our total revenue and accounts receivable:

	<b>Revenue</b>	
	<b>Number of customers</b>	<b>% of total</b>
Quarter ended March 31, 2016 .....	4	79%
Quarter ended March 31, 2015 .....	4	69%

  

	<b>Accounts receivable</b>	
	<b>Number of customers</b>	<b>% of total</b>
As at March 31, 2016 .....	3	75%
As at December 31, 2015.....	3	75%

We review accounts receivable balances regularly and reduce amounts to their expected realizable values by recognizing an allowance for doubtful accounts in period the account is estimated not to be fully collectible.

Credit reviews take into account the counterparty's financial position, past experience and other factors. The majority of our customers are large financially established organizations and we believe this limits the credit risk relating to customers.

### *Liquidity Risk*

Liquidity risk is the risk that we are not able to meet our financial obligations as they fall due. One of management's primary goals is to manage liquidity risk by continuously monitoring actual and projected cash flows to ensure that we have sufficient liquidity to meet our liabilities when due, under both normal and financially stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The majority of our financial liabilities are comprised of accounts payable and accrued liabilities. Given our available cash resources as compared to the liabilities, we assess the liquidity risk to be low.

We believe that the existing cash and cash equivalents will provide sufficient funding to meet all working capital, contractual commitments and financing needs for at least the next 12 months.

### ***Interest Rate Risk***

Interest rate risk arises because of the fluctuation in interest rates. We are, or have been, subject to interest rate risk on our cash and cash equivalents. The impact of change in interest rates has not been, nor is it expected to be, significant.

### **Critical Accounting Policies and Estimates**

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. These estimates and assumptions are affected by management's application of accounting policies and historical experience, and are believed by management to be reasonable under the circumstances. Such estimates and assumptions are evaluated on an ongoing basis and form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from these estimates.

Our significant accounting policies are fully described in Note 3 to our consolidated financial statements for the years ended December 31, 2015 and 2014 which are available on SEDAR ([www.sedar.com](http://www.sedar.com)). Certain accounting policies are particularly important to the reporting of our financial position and results of operations, and require the application of significant judgment by our management. An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different, estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could have a material impact on the consolidated financial statements. Management believes the following critical accounting policies reflect the more significant estimates and assumptions used in the preparation of our consolidated financial statements:

On December 10, 2015, the Company, NexJ Health Inc. and NexJ Health Holdings Inc., a newly incorporated company, entered into an Arrangement Agreement, pursuant to which by way of a court-approved plan of arrangement (the "Arrangement"), voted on by the shareholders at the special meeting of the shareholders on January 13, 2016, the Company spun out the assets and liabilities of the Healthcare business to NexJ Health Holdings Inc. in exchange for common shares. Since the Healthcare business was spun off effective January 25, 2016, the results of the Healthcare business have been presented as a discontinued operation in the consolidated statements of comprehensive loss for the period from January 1, 2016 to January 24, 2016 and the comparatives have been restated to show the discontinued operation separately from continuing operations.

We believe that there have been no other significant changes in our critical accounting estimates used in the preparation of the financial statements for the quarters ended March 31, 2016 and 2015 and from the annual audited consolidated financial statements for the years ended December 31, 2015 and 2014.

### ***Recently Adopted Accounting Pronouncements***

The accounting pronouncements indicated below are required to be applied beginning on or after January 1, 2016. Refer to our 2015 annual consolidated financial statements for a brief description of each accounting pronouncement. The Company adopted the following new accounting pronouncements which did not have any impact on its condensed interim consolidated financial statements:

- *Amendments to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations*
- *Amendments to IAS 38, Intangible Assets and IAS 16, Property, Plant and Equipment*

### ***Recent Accounting Pronouncements***

In addition, the Company has not yet adopted certain standards, interpretations and amendments that have been issued but are not yet effective. Refer to our 2015 annual consolidated financial statements for a brief description of each accounting pronouncement:

- *IFRS 9, Financial Instruments*
- *IFRS 15, Revenue from Contracts with Customers*

- *IFRS 16, Leases*

The Company is reviewing these new standards and amendments to determine the potential impact on the Company's consolidated financial statements once they are adopted.

#### ***Outstanding Share Data***

As of April 28, 2016, 21,232,847 Common Shares were issued and outstanding. In addition, as of March 31, 2016, there were 1,935,471 stock options outstanding with exercise prices ranging from \$1.23 to \$3.70 per share.

As at March 31, 2016, there were 295,143 deferred share units ("DSUs") outstanding under the Company's deferred share unit plan for independent members of the Board of Directors, each of which represents the right to acquire one common share when the Board member is no longer rendering service to the Company.

#### **Controls and Procedures**

##### ***Evaluation of disclosure controls and procedures:***

Management is responsible for establishing and maintaining disclosure controls and procedures as defined under National Instrument 52-109. At March 31, 2016, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective and that material information relating to the Company was made known to them and was recorded, processed, summarized and reported within the time periods specified under applicable securities legislation.

##### ***Internal controls over financial reporting:***

Management is responsible for designing and maintaining internal controls over financial reporting as defined under National Instrument 52-109. At March 31, 2016, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these internal controls and procedures was effective in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements for external purposes in accordance with IFRS using the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") framework (2013).

The Chief Executive Officer and the Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, whether or not there were changes to its ICFR during the quarter ended March 31, 2016 that have materially affected, or are reasonably likely to materially affect the Company's ICFR. No such changes were identified through their evaluation.

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute assurance that its objectives are met. Due to inherent limitations in all systems, no evaluations of controls can provide absolute assurance that all control issues, if any, within a company have been detected. Accordingly, our disclosure controls and procedures and our internal controls over financial reporting are effective in providing reasonable, not absolute assurance that the objectives of our control systems have been met.

***About NexJ Systems Inc.***

NexJ provides enterprise customer management solutions to the financial services industry.

Our solutions include industry-specific customer relationship management (CRM) for multi-channel engagement and collaboration; customer process management (CPM) for client onboarding and KYC; and customer data management (CDM) to deliver a holistic view of customers across line of business and regional data silos. Our solutions integrate information from multiple systems into a unified view to help firms better understand and share information about their customers to increase loyalty, drive cross-sell and improve the customer experience.

NexJ was founded by an executive management team with extensive experience in the successful design and delivery of large-scale, integrated, enterprise software solutions. NexJ is publicly traded on the Toronto Stock Exchange (TSX: NXJ). For further information about the company, please visit [www.nexj.com](http://www.nexj.com). Additional information relating to the Company is available on SEDAR at [www.sedar.com](http://www.sedar.com).

***Investors Relations and Media Contact***

Matthew Bogart  
416-227-3708  
[matt.bogart@nexj.com](mailto:matt.bogart@nexj.com)

***Quarterly Investment Community Conference Call***

As previously announced by press release, a live webcast of our quarterly results conference call with the investment community will be hosted via a conference call (dial 1-888-231-8191) and webcast beginning at 5:00 p.m. ET today, April 28, 2016. A replay of the call will be available beginning April 28, 2016 at 8:00 p.m. ET through 11:59 p.m. ET on May 5, 2016 and can be accessed by dialing 1-855-859-2056 and using password 88654841.

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