

Consolidated Financial Statements
(Expressed in Canadian dollars)

NEXJ SYSTEMS INC.

Years ended December 31, 2016 and 2015



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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, 2016 and 2015, the consolidated statements of comprehensive income (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.



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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, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

February 15, 2017
Toronto, Canada

NEXJ SYSTEMS INC.

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

December 31, 2016 and 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents (note 4)	\$ 14,678	\$ 14,699
Accounts receivable (note 5)	12,573	8,274
Prepaid expenses and other assets (note 6)	1,094	968
Assets held for distribution (note 25)	—	962
Total current assets	28,345	24,903
Non-current assets:		
Property and equipment (note 7)	1,965	2,102
Goodwill (note 8)	1,753	1,753
Other assets (note 9)	260	260
Total non-current assets	3,978	4,115
Total assets	\$ 32,323	\$ 29,018
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 10)	\$ 5,871	\$ 5,424
Deferred revenue	7,137	4,382
Provisions (note 11)	224	223
Current portion of finance lease liability (note 12)	148	—
Liabilities held for distribution (note 25)	—	964
Total current liabilities	13,380	10,993
Non-current liabilities:		
Accrued liabilities (note 10)	1,259	658
Provisions (note 11)	—	224
Finance lease liability (note 12)	160	—
Deferred revenue	—	304
Total non-current liabilities	1,419	1,186
Total liabilities	14,799	12,179
Shareholders' equity:		
Share capital (note 14)	82,648	83,094
Share purchase loans (note 14)	(3,622)	(3,622)
Contributed surplus (note 15)	7,139	6,293
Deficit	(68,641)	(68,926)
Total shareholders' equity	17,524	16,839
Related party transactions (note 19)		
Contractual obligations (note 23)		
Total liabilities and shareholders' equity	\$ 32,323	\$ 29,018

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"Deborah Rosati" _____ Director "William M. Tatham" _____ Director

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

	2016	2015
Revenue:		
License fees	\$ 5,821	\$ 4,889
Professional services	20,087	18,290
Maintenance and support	7,613	5,401
	<u>33,521</u>	<u>28,580</u>
Expenses*:		
Professional services	11,850	12,311
Research and development, net	7,693	6,973
Sales and marketing	4,876	4,934
General and administrative, net	6,693	7,183
Impairment of loan receivable and shared services (note 19)	1,630	–
	<u>32,742</u>	<u>31,401</u>
Income (loss) from operations	779	(2,821)
Foreign exchange gain (loss)	(270)	947
Finance income (note 20)	77	116
	<u>(193)</u>	<u>1,063</u>
Income (loss) before income taxes	586	(1,758)
Income taxes (note 16)	–	–
Income (loss) from continuing operations	586	(1,758)
Loss from discontinued operation (note 25)	(252)	(5,382)
Net income (loss) and comprehensive income (loss)	<u>\$ 334</u>	<u>\$ (7,140)</u>
Earnings (loss) per share (note 21):		
Basic and diluted from continuing operations	\$ 0.03	\$ (0.09)
Basic and diluted from discontinued operation	(0.01)	(0.26)
Basic and diluted	0.02	(0.35)
Weighted average number of common shares outstanding, in thousands (note 21):		
Basic	20,206	20,457
Diluted	20,697	20,457
*Share-based payment expense included in expenses as follows:		
Professional services	\$ 256	\$ 145
Research and development, net	305	203
Sales and marketing	48	60
General and administrative, net	314	102
	<u>\$ 923</u>	<u>\$ 510</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 thousands of common shares)

Years ended December 31, 2016 and 2015

2016	Common shares Number*	Amount	Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2015	20,208	\$ 83,094	\$ (3,622)	\$ 6,293	\$ (68,926)	\$ 16,839
Comprehensive income	–	–	–	–	334	334
Distribution (note 2(b))	–	–	–	–	(49)	(49)
Share-based payment expense (note 15(a)(ii))	–	–	–	923	–	923
Exercise of employee stock options (note 15(a)(iii))	130	243	–	(77)	–	166
Repurchase of common shares (note 14(c))	(306)	(689)	–	–	–	(689)
Balance, December 31, 2016	20,032	\$ 82,648	\$ (3,622)	\$ 7,139	\$ (68,641)	\$ 17,524

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements (note 14(b)(i)) are not recognized as outstanding until such time as payments are received on the loan balances. At December 31, 2016, 950 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 20,982.

2015	Common shares Number*	Amount	Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
Balance, December 31, 2014	20,459	\$ 83,306	\$ (3,622)	\$ 5,783	\$ (61,786)	\$ 23,681
Comprehensive loss	–	–	–	–	(7,140)	(7,140)
Share-based payment expense (note 15(a)(ii))	–	–	–	510	–	510
Cancellation of common shares (note 13)	(237)	(190)	–	–	–	(190)
Repurchase of common shares (note 14(c))	(14)	(22)	–	–	–	(22)
Balance, December 31, 2015	20,208	\$ 83,094	\$ (3,622)	\$ 6,293	\$ (68,926)	\$ 16,839

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements (note 14(b)(i)) are not recognized as outstanding until such time as payments are received on the loan balances. At December 31, 2015, 950 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,158.

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, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities:		
Net income (loss)	\$ 334	\$ (7,140)
Adjustments for:		
Impairment of loan receivable and shared services (note 19)	1,630	–
Depreciation and amortization	857	1,663
Share-based payment expense	923	510
Finance income	(77)	(116)
Foreign exchange loss (gain)	164	(495)
Loss from discontinued operation	252	5,382
Change in non-cash operating working capital:		
Accounts receivable	(4,225)	(761)
Prepaid expenses and other assets	(130)	(109)
Accounts payable and accrued liabilities and provisions	765	1,814
Deferred revenue	2,431	294
Net cash flows from continuing operations	2,924	1,042
Net cash flows used in discontinued operation (note 25)	(270)	(4,888)
	2,654	(3,846)
Cash flows from (used in) financing activities:		
Repurchase of common shares	(689)	(22)
Proceeds from exercise of stock options	166	–
Payment of finance lease liability	(136)	–
Net settlement of earn-out liability (note 13)	–	(22)
Net cash flows used in financing activities	(659)	(44)
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(259)	(306)
Advances to NexJ Health Inc. (note 19)	(1,630)	–
Distribution, net of cash (note 2(b))	(40)	–
Interest received	77	116
Net cash flows used in investing activities	(1,852)	(190)
Effects of exchange rates on cash and cash equivalents	(164)	495
Decrease in cash and cash equivalents	(21)	(3,585)
Cash and cash equivalents, reclassified to held for distribution	–	(14)
Cash and cash equivalents, beginning of year	14,699	18,298
Cash and cash equivalents, end of year	\$ 14,678	\$ 14,699
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid	\$ 57	\$ 59
Acquisition of property and equipment under finance lease (note 12)	444	–

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, 2016 and 2015

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 enterprise customer management solutions to the financial services industry.

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 ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB").

The policies applied in these consolidated financial statements are based on IFRS issued as at February 15, 2017, the date the Board of Directors approved the consolidated financial statements.

(b) Plan of Arrangement:

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 Corporations Act. Upon the effective time 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.

The assets and liabilities which were distributed to the Company's shareholders in connection with the spin-off of the Healthcare business on January 25, 2016 pursuant to the Arrangement comprised cash of \$9, accounts receivable of \$296, prepaid expenses and other assets of \$145, property and equipment of \$40, intangible assets of \$548, accounts payable and accrued liabilities of \$432 and deferred revenue of \$557.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

2. Basis of preparation (continued):

The Company accounted for the distribution in accordance with IFRIC 17, Distribution of Non-Cash Assets to Owners, which requires the assets being distributed to be recognized at fair value. The Company used significant judgments related to the fair value measurement of assets and liabilities distributed pursuant to the Arrangement. The estimates required management to exercise judgment concerning valuation approaches and methods, estimates of future cash flows, and discount rates. The distribution of \$49 was charged to deficit on January 25, 2016.

(c) Basis of measurement:

These consolidated financial statements have been prepared principally under the historical cost basis, except for cash-settled deferred share units, which are measured at fair value. 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 income (loss) are presented using the function classification for expenses.

(d) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollar, which is the Company's functional currency.

(e) 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 year in which the estimates are revised and in any future years affected.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

2. Basis of preparation (continued):

Key areas of estimation uncertainties and assumptions that contain significant risk as a result of matters that are inherently uncertain and judgments include:

(i) Accounting for business combinations:

- Key sources of estimation uncertainty:

The estimated fair value of acquired assets and liabilities assumed are determined at the date of acquisition. The determination and measurement of fair value requires management to make assumptions, estimates and utilizes established methodologies.

(ii) Impairment of goodwill and intangible assets:

- Critical judgments in applying accounting policies:

Assessment of impairment is based on management's judgment of whether there are sufficient internal and external factors that would indicate that an asset or cash generating unit ("CGU") is impaired. The determination of a CGU is also based on management's judgment and is an assessment of the smallest group of assets that generate cash inflows independently of other assets. Factors considered include whether an active market exists for the output produced by the asset or group of assets, as well as how management monitors and makes decisions about the Company's operations.

- Key sources of estimation uncertainty:

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, 2016 and 2015

2. Basis of preparation (continued):

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

- Key sources of estimation uncertainty:

Useful lives over which assets are depreciated or amortized are based on management's judgment 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)).

(iv) Fair value of share-based payments:

- Key sources of estimation uncertainty:

Fair value of stock options 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).

(v) Revenue recognition:

- Key sources of estimation uncertainty:

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 forecasted information and contractual terms.

- Critical judgments in applying accounting policies:

A significant portion of the Company's revenue is generated from large, complex customer contracts. Management's judgment is applied regarding, among other aspects, the evaluation of multiple elements within these arrangements to assess whether deliverables can be recognized separately for revenue recognition purposes (note 3(b)).

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

2. Basis of preparation (continued):

(vi) Valuation of accounts receivable:

- Key sources of estimation uncertainty:

The Company reviews the accounts receivable balances on a regular basis and estimates the likelihood of collection and records allowance for estimated losses. Management bases its estimates on historical experience and other relevant factors (note 17(b)).

(vii) Provisions:

- Key sources of estimation uncertainty:

The measurement of provisions requires management to make estimates based only on the best information available at the reporting date. As additional information becomes available, the Company will reassess the potential liability and, if necessary, revise the provisions amounts (note 11), using management's best estimate at that reporting date.

- Critical judgments in applying accounting policies:

Management's judgment is required to assess whether provisions should be recognized or disclosed. 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.

Significant changes in the assumptions, including those with respect to future business plans and estimated cash flows, could materially change the recorded carrying amounts and amounts recognized in the consolidated statements of comprehensive income (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, 2016 and 2015

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all years 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.

On December 14, 2016, the Company dissolved its wholly owned subsidiary: Broadstreet Data Solutions America, Inc. ("Broadstreet"), a company incorporated in the State of Georgia in the United States. As a result of the dissolution, the Company became a stand-alone company and going forward its financial results will not require consolidation. The operating results of Broadstreet up to the date of dissolution are included in these consolidated financial statements for the years ended December 31, 2016 and 2015.

Intercompany balances and 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 income (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, 2016 and 2015

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 and subscription-based arrangements 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 the consolidated statements of comprehensive income (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, 2016 and 2015

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. Out-of-pocket expenditures that are contractually reimbursable from customers are recorded as gross revenue and expenditures.

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 the consolidated statements of comprehensive income (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 where professional services are not essential. In such arrangements, professional services are recognized as delivered to the customer and the subscription revenue is recognized ratably 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 income (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.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(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.

(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 amount is not considered fully recoverable. Any change in the allowance is recognized within general and administrative costs in the consolidated statements of comprehensive income (loss).

(e) Property and equipment:

Property and equipment are recorded at cost less accumulated depreciation and amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization are 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%
Computer hardware	Declining balance	30%
Office equipment	Declining balance	30%
Computer software	Straight line	100%
Leasehold improvements	Straight line	Over shorter of estimated useful life and lease term

Upon disposition, the cost and related accumulated depreciation and amortization and accumulated impairment losses, if any, are removed from the accounts and the resulting gain or loss is reflected in the consolidated statements of comprehensive income (loss). Expenditures for maintenance and repairs are charged to expense as incurred.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

Assets under finance leases are initially recorded at the present value of the minimum lease payments at the inception of the lease.

(f) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the consolidated statements of comprehensive income (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, 2016 or 2015.

(g) Investment tax credits:

The Company is entitled to certain refundable and 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 consolidated statements of comprehensive income (loss) or as a reduction of the related asset's cost for items capitalized in the consolidated statements of financial position when the amount is reliably estimable and realization is reasonably assured.

(h) Goodwill and intangible assets:

(i) Goodwill:

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible assets acquired. Goodwill is not amortized and 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, 2016 and 2015

3. Significant accounting policies (continued):

Intangible assets acquired in a business combination are measured at their acquisition date estimated fair value. The Company uses the income approach to value acquired customer relationships, acquired technology 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 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 income (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 on a straight-line basis over the following estimated useful lives of intangible assets:

Customer relationships	3 - 4 years
Technology	4 years

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, 2016 and 2015

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 December 31.

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 flows. 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. The recoverable amount of a CGU 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 or CGU.

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 income (loss).

An impairment loss in respect of goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior years 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, 2016 and 2015

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.

(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, either 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; or over a two-year vesting period with options vested and exercisable in 8 equal quarterly instalments. The Company applies a fair value method of accounting to each instalment of stock options granted to employees.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

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 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 remeasured at each reporting date and the changes in the Company's liability, due to changes in the fair value of the award prior to the settlement date, are recognized in the consolidated statements of comprehensive income (loss) in the year 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, 2016 and 2015

3. Significant accounting policies (continued):

(l) Earnings (loss) per share:

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the year by the weighted average number of common shares outstanding during the year. Diluted earnings (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 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 taxes. Income tax expense is recognized in the consolidated statements of comprehensive income (loss), except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

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 consolidated 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, 2016 and 2015

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 the consolidated statements of comprehensive income (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 that 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 the consolidated statements of comprehensive income (loss).

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

The assets and liabilities of the Company's foreign operations are translated to Canadian dollars at the rate of exchange in effect at the consolidated statements of financial position dates. Revenue and expenses are translated at the relevant average monthly exchange rates. The resulting unrealized exchange gain or loss is included in the consolidated statements of comprehensive income (loss).

(o) Lease payments:

Payments made under operating leases are recognized in the consolidated statements of comprehensive income (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 expired.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

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 as held-for-trading. Held-for-trading financial investments are subsequently measured at fair value and all gains and losses are included in the consolidated statements of comprehensive income (loss) in the year in which they arise.

(b) Loans and receivables:

Loans and receivables which comprise accounts receivable and assets held for distribution 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, finance lease liability, liabilities held for distribution and provisions 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.

(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.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

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 the consolidated statements of comprehensive income (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 the consolidated statements of comprehensive income (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.

(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.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(r) Discontinued operation:

A discontinued operation is a component of the Company's business that has either been disposed of or that is classified as held-for-sale or held for distribution. A component of the Company's business comprises operations and cash flows that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale or held-for-distribution. When an operation is classified as a discontinued operation, the consolidated comparative statements of comprehensive income (loss) and cash flows are represented as if the operation had been discontinued from the start of the comparative year.

(s) Finance income and finance costs:

Finance income comprises interest income on cash equivalents recognized in the consolidated statements of comprehensive income (loss) as it accrues, using the effective interest method. Finance costs comprise interest expense on borrowings that are recognized in the consolidated statements of comprehensive income (loss).

(t) Recently adopted accounting pronouncements:

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

Effective January 1, 2016, the Company adopted the following amendments to IFRS:

(i) Amendments to IFRS 5, Non-current Assets Held for Sale and Discontinued Operations:

In September, 2014, the IASB issued amendments to this standard to be applied prospectively, with earlier application permitted. Assets are generally disposed of either through a sale or through distribution to owners. The amendments clarify the application when changing from one of these disposal methods to the other. The adoption of this amendment did not have significant impact on these 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, 2016 and 2015

3. Significant accounting policies (continued):

- (ii) Amendments to International Accounting Standard ("IAS") 38, Intangible Assets, and IAS 16, Property, Plant and Equipment:

In May 2014, the IASB issued amendments to these standards to introduce a rebuttable presumption that the use of revenue-based amortization methods for intangible assets is inappropriate. The adoption of this amendment did not have significant impact on these consolidated financial statements.

- (u) Recent accounting pronouncements:

A number of new standards and amendments to standards and interpretations are not yet effective for the year ended December 31, 2016, 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, 2017, unless otherwise noted:

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

IFRS 9 replaces IAS 39, Financial Instruments - Recognition and Measurement, on the classification and measurement of financial assets and financial liabilities. Financial assets will be classified into one of two categories on initial recognition: amortized cost or fair value. For financial liabilities measured at fair value under the fair value option, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the change recognized in the consolidated statements of comprehensive income (loss). The standard is effective for annual periods beginning on or after January 1, 2018 with retroactive application.

- (ii) IFRS 15, Revenue from Contracts with Customers ("IFRS 15"):

IFRS 15 replaces IAS 11, Construction contracts; IAS 18, Revenue; IFRIC 13, Customer Loyalty Programmes; IFRIC 15, Agreements for the Construction of Real Estate; IFRIC 18, Transfer of Assets from Customers, and Standing Interpretation Committee 31, Revenue-Barter Transactions Involving Advertising Services; and introduces a single model of recognizing revenue from contracts with customers, except leases, financial instruments and insurance contracts. The standard is effective for annual periods beginning on or after January 1, 2018 with retroactive application and with early adoption permitted.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

3. Significant accounting policies (continued):

(iii) IFRS 16, Leases ("IFRS 16"):

IFRS 16 replaces IAS 17, Leases, and introduces new rules for accounting for leases which will result in substantially all lessee leases being recorded on the consolidated statements of financial position. The standard is effective for annual periods beginning on or after January 1, 2019 with retroactive application and with early adoption permitted.

The Company intends to adopt each of the above standards, as applicable to the Company, in the year in which they are effective. The Company is reviewing these new standards to determine the potential impact on the Company's consolidated financial statements once they are adopted.

4. Cash and cash equivalents:

	2016	2015
Cash and cash equivalents:		
Bank balances	\$ 4,226	\$ 8,436
Call deposits	10,452	6,277
Reclassification to assets held for distribution	–	(14)
	\$ 14,678	\$ 14,699

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

5. Accounts receivable:

	2016	2015
Accounts receivable, gross	\$ 12,573	\$ 8,649
Allowance for doubtful accounts	–	(153)
Reclassification to assets held for distribution	–	(222)
	\$ 12,573	\$ 8,274

The accounts receivable are regularly reviewed for objective evidence of impairment. For the year ended December 31, 2016, general and administrative expenses include bad debt expense of nil (2015 - \$133).

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

5. Accounts receivable (continued):

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

	2016	2015
Current	\$ 12,366	\$ 7,303
Past due 1 - 90 days	207	1,173
Past due > 91 days	–	20
Reclassification to assets held for distribution	–	(222)
	<u>\$ 12,573</u>	<u>\$ 8,274</u>

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

	2016	2015
Balance, beginning of year	\$ 153	\$ 59
Charges	–	153
Write-offs	(153)	(39)
Reversal	–	(20)
	<u>\$ –</u>	<u>\$ 153</u>

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

6. Prepaid expenses and other assets:

	2016	2015
Prepaid expenses	\$ 497	\$ 519
Ontario investment tax credits receivable	265	240
Ontario co-op credits receivable	99	97
Other	233	260
Reclassification to assets held for distribution	–	(148)
	<u>\$ 1,094</u>	<u>\$ 968</u>

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

7. Property and equipment:

(a) Cost:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, December 31, 2014	\$ 1,043	\$ 2,421	\$ 266	\$ 669	\$ 2,289	\$ 6,688
Additions	–	236	4	3	122	365
Balance, December 31, 2015	1,043	2,657	270	672	2,411	7,053
Additions	4	707	10	4	35	760
Assets distributed per spin-off Arrangement (note 2(b))	–	(82)	–	–	–	(82)
Balance, December 31, 2016	\$ 1,047	\$ 3,282	\$ 280	\$ 676	\$ 2,446	\$ 7,731

(b) Accumulated depreciation and amortization:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, December 31, 2014	\$ 553	\$ 1,769	\$ 112	\$ 620	\$ 1,162	\$ 4,216
Depreciation and amortization	92	200	42	34	367	735
Balance, December 31, 2015	645	1,969	154	654	1,529	4,951
Depreciation and amortization	74	313	32	12	426	857
Assets distributed per spin-off Arrangement (note 2(b))	–	(42)	–	–	–	(42)
Balance, December 31, 2016	\$ 719	\$ 2,240	\$ 186	\$ 666	\$ 1,955	\$ 5,766

(c) Carrying amounts:

	Furniture and fixtures	Computer hardware	Office equipment	Computer software	Leasehold improvements	Total
Balance, December 31, 2015	\$ 398	\$ 688	\$ 116	\$ 18	\$ 882	\$ 2,102
Balance, December 31, 2016	328	1,042	94	10	491	1,965

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

8. Intangible assets and goodwill:

(a) Cost:

	Intangible assets				Total
	Goodwill	Customer relationships	Non-competition agreements	Technology	
Balance, December 31, 2014	\$ 4,504	\$ 2,216	\$ 500	\$ 810	\$ 3,526
Reclassification to assets held for distribution	(864)	(190)	–	(810)	(1,000)
Balance, December 31, 2015	3,640	2,026	500	–	2,526
Balance, December 31, 2016	\$ 3,640	\$ 2,026	\$ 500	\$ –	\$ 2,526

(b) Amortization and impairment losses:

	Intangible assets				Total
	Goodwill	Customer relationships	Non-competition agreements	Technology	
Balance, December 31, 2014	\$ 1,887	\$ 1,130	\$ 500	\$ 140	\$ 1,770
Amortization	–	976	–	202	1,178
Impairment charge	864	–	–	–	–
Reclassification to assets held for distribution	(864)	(80)	–	(342)	(422)
Balance, December 31, 2015	1,887	2,026	500	–	2,526
Amortization	–	–	–	–	–
Balance, December 31, 2016	\$ 1,887	\$ 2,026	\$ 500	\$ –	\$ 2,526

(c) Carrying amounts:

	Intangible assets				Total
	Goodwill	Customer relationships	Non-competition agreements	Technology	
Balance, December 31, 2015	\$ 1,753	\$ –	\$ –	\$ –	\$ –
Balance, December 31, 2016	1,753	–	–	–	–

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

8. Intangible assets and goodwill (continued):

(d) Impairment:

For the year ended December 31, 2016, the Company determined that the products and services of the previously acquired entity, Broadstreet Data Solutions Inc., have been fully integrated into the Company's product and services offerings and, as a result, the Company is operating as a single operating CGU and the carrying value of goodwill is attributable to the entire Company.

The Company tested goodwill for impairment as at December 31, 2016. The recoverable amount of the CGU was determined based on value-in-use calculations, using management's discounted estimated future cash flows over a period of 5 years along with a terminal value. The terminal value is the value attributed to the CGU's operations beyond the projected time period. The terminal value for the CGU was determined using an estimated long-term growth rate of 3%, which is based on the Company's estimates of expected future operating results after considering future business plans, economic conditions and a general outlook for the industry in which the CGU operates.

In calculating the recoverable amount of the CGU, a pre-tax discount rate is used. The pre-tax discount rate range applied was 15% to 20%, which was set considering the weighted average cost of capital of the CGU and certain risk premiums, based on management's past experience.

These assumptions are subjective judgments and estimates based on the Company's experience and knowledge of the economic environment in which it operates. It is possible that, if future cash flow projections, long-term growth rates or pre-tax discount rates are different to those used, the outcome of future impairment tests could result in a different outcome with the CGU's goodwill being impaired. Based on the sensitivity analysis performed, the Company has concluded that no reasonably possible changes in key assumptions on which the recoverable amount is based would cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2016.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

8. Intangible assets and goodwill (continued):

(e) Impairment charge:

At December 31, 2015, the recoverable amount of the Healthcare CGU was determined to be nominal as compared to the carrying value of \$859. As a result, for the year ended December 31, 2015, the Company recorded an impairment charge of \$864 against the carrying value of the allocated goodwill to the Healthcare CGU. This has been presented under loss from discontinued operations in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2015. Refer to note 25 for discontinued operation disclosures.

With respect to its definite life intangible assets, at the end of each reporting year, the Company assesses whether there is any indication that any of these may be impaired and performs an impairment analysis where indicators are noted. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount, which is the higher of the asset's fair value less costs of disposal and its value-in-use.

9. Other non-current assets:

Other non-current assets represents rental deposits of \$260 (2015 - \$260) for the leased office premises, which are released at specified dates during the lease term and expire in 2022.

10. Accounts payable and accrued liabilities:

	2016	2015
Trade payables	\$ 1,264	\$ 1,352
Employee and director compensation payable	3,226	2,636
Accrued expenses	2,640	2,521
Reclassification to liabilities held for distribution	—	(427)
	<u>\$ 7,130</u>	<u>\$ 6,082</u>

The employee and director compensation payable and accrued expenses include \$1,259 and nil (2015 - \$521 and \$137), respectively, 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, 2016 and 2015

11. Provisions:

Lease-exit charges	2016	2015
Balance, January 1	\$ 447	\$ 355
Provisions made	-	351
Provisions used	(223)	(259)
Balance, December 31	\$ 224	\$ 447

Lease-exit charges	2016	2015
Short term	\$ 224	\$ 223
Long term	-	224
Balance, December 31	\$ 224	\$ 447

In November 2013, the Company vacated a portion of its leased office premises and recognized a liability for the discounted future lease payments to which the Company is committed, less expected future sublease income as the vacated office facility no longer had any operating business activities. The Company further revised its estimated liability at March 31, 2014 based on securing a subtenant for the sublease, which commenced in July 2014.

In June 2015, the Company vacated another portion of its leased office premises and secured a subtenant for the vacated space. During the three months ended June 30, 2015, the Company recognized a liability of \$351 and the charge was recognized as a general and administrative expense in the condensed interim consolidated statements of comprehensive loss, for the discounted future lease payments to which the Company is committed, less the expected future sublease income per the sublease agreement as the vacated office facility no longer had any operating business activities.

During the year ended December 31, 2016, the Company applied \$1,190 of rent paid, offset by rental income received under the sublease arrangement of \$967, relating to the vacated portion of its leased office premises against the provision recorded in the prior year (note 23).

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

12. Finance lease liability:

During the year ended December 31, 2016, the Company entered into a finance lease for the purchase of computer hardware recorded in property and equipment in the amount of \$444. This lease is repayable in monthly payments of \$12, with no imputed interest and maturing in 2019.

Total future lease payments as at December 31, 2016 are as follows:

Less than 1 year	\$ 148
Between 1 and 5 years	160
	<hr/>
	\$ 308

13. Earn-out liability:

As part of the acquisition of Liberate in fiscal 2014, a portion of the total consideration up to a maximum of \$1,000, payable in 50% cash and 50% common shares, was contingent consideration subject to an earn-out arrangement over the earn-out period ended April 23, 2015. The earn-out was determined based on post-acquisition customer bookings targets as specified in the Agreement. As at March 31, 2015, the Company reviewed and assessed the probability of achieving such targets and determined that the earn-out targets were not met and, accordingly, the Company recorded an earn-out recovery of \$398, which has been presented under loss from discontinued operation (note 25) in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2015.

In November 2015, the Company and the selling shareholder of Liberate entered into full and final settlement, whereby the Company paid \$25 (inclusive of harmonized sales tax) to the selling shareholder and waived its indemnification rights under the Liberate Share Purchase Agreement in exchange for the cancellation of the remaining earn-out payment liability of \$280, cancellation of the receivable of \$448, as well as the cancellation of the 237,192 common shares issued by the Company on April 23, 2014 to the selling shareholder. These common shares were cancelled on November 30, 2015. The amounts relating to the cancellation of the common shares, net of the earn-out liability no longer payable and receivable no longer due, amounted to \$190 and was recorded as a reduction of share capital in the consolidated statements of changes in shareholders' equity.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

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:

20,982,260 common shares (2015 - 21,158,228)

- (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 at 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, 2016 and 2015

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.

At December 31, 2016, 950,272 common shares (2015 - 950,272) for proceeds of \$3,622 (2015 - \$3,622) 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 entered into a non-binding retention bonus agreement dated March 28, 2011 with certain Exercise Persons, 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 year ended December 31, 2016, the Company expensed nil (2015 - \$79) relating to these retention bonuses for certain Exercise Persons. The amounts paid to the Exercise Persons under these bonus arrangements are not required to be used to repay the share purchase loans.

- (c) The Company has repurchased its common shares through the following Normal Course Issuer Bids ("NCIB"):
 - (i) In August, 2016, the Company applied to the Toronto Stock Exchange ("TSX") for NCIB, which was accepted by the TSX on August 20, 2016, for purchases of its common shares through all available markets and/or alternative trading systems, including the facilities of the TSX. Pursuant to the NCIB, the Company proposes to purchase on the open market through the facilities of the TSX or alternative Canadian trading systems. The NCIB is valid for one year and the maximum number of common shares which can be purchased until August 23, 2017, 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 at August 15, 2016.

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Notes to Consolidated Financial Statements (continued)
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14. Share capital (continued):

During the year ended December 31, 2016, the Company repurchased and cancelled 215,300 of its common shares through trades on the TSX for an aggregate purchase price of \$488, which was recorded as a reduction of share capital.

- (ii) The Company had an NCIB in place from August 24, 2015 to August 23, 2016, pursuant to which the Company could, pursuant to the NCIB, purchase its common shares aggregated to 1,000,000 common shares, representing approximately 4.7% of the number of common shares issued and outstanding as at August 12, 2015, through all available markets and/or alternative trading systems, including the facilities of the TSX.

During the year ended December 31, 2016, the Company repurchased and cancelled 90,700 (2015 - 13,926) of its common shares through trades on the TSX for an aggregate purchase price of \$201 (2015 - \$22), which was recorded as a reduction of share capital.

In respect of the two NCIBs above, during the year ended December 31, 2016, in aggregate the Company repurchased and cancelled 306,000 of its common shares through trades on the TSX for an aggregate purchase price of \$689, which was recorded as a reduction of share capital.

15. Share-based payment arrangements:

At December 31, 2016, 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.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

15. Share-based payment arrangements (continued):

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:

	2016	2015
Risk-free interest rates	0.6%	0.6%
Expected life (years)	4.1	4.1
Volatility	68%	62%
Forfeiture rate	17%	16%

The weighted average grant date fair value of options granted during the year was \$1.05 (2015 - \$0.90). The grant date fair value of the options granted during the year ended December 31, 2016, net of forfeitures, was \$40 (2015 - \$1,315), which will be recognized over the two-year vesting period with options vested in 8 equal quarterly instalments.

- (ii) The total share-based payment expense and the amount credited to contributed surplus for the year ended December 31, 2016 was \$923 (2015 - \$510).
- (iii) On December 1, 2015, the Company modified its stock options plan to cancel and regrant options to existing employees and, accordingly, cancelled 682,146 options issued during the period from 2009 to 2012 with exercise prices ranging from \$3.50 per share to \$9.00 per share and regranted 781,200 options at an exercise price of \$1.47 per share to be recognized over the two-year vesting period with options vesting in 8 equal quarterly instalments. This replacement of options has been treated as a repricing of options, where the remaining incremental fair value of the cancelled options was immediately expensed and a new fair value was calculated based on the new exercise price and this new fair value is used in determining share-based payment expense over the new vesting period of the regranted options. Due to repricing of the options, an additional \$2 was recorded as share-based payment expense. The cancellation and regrant of options to employees was subject to shareholder approval and these options could not be exercised until such approval was obtained. The insiders benefitting from the repricing of the options were excluded from the shareholder voting in accordance with the rules and policies of the TSX. The approval was received at the special shareholder meeting held on January 13, 2016.

NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

15. Share-based payment arrangements (continued):

The Company also allowed the employees to accelerate the vesting of their outstanding and unvested options issued prior to December 1, 2015 and exercise such options up to the date of the special shareholders' meeting of January 13, 2016. Subsequent to that date, the original vesting period was automatically reinstated. Up to the date of the special shareholders' meeting of January 13, 2016, 109,125 issued options were accelerated and exercised.

In addition, during the year ended December 31, 2016, 130,032 vested options were exercised by certain employees of the Company.

The following table outlines the activity for stock options for the years ended December 31, 2016 and 2015:

	2016		2015	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of year	2,102	\$ 1.67	1,406	\$ 4.80
Granted	43	2.05	1,743	1.36
Exercised	(130)	1.27	—	—
Cancelled	(120)	1.96	(1,047)	5.37
Outstanding, end of year	1,895	1.68	2,102	1.67
Exercisable	1,250	\$ 1.71	508	\$ 2.01

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

15. Share-based payment arrangements (continued):

At December 31, 2016, 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)
\$1.00 - \$2.00	1,499	5.59
\$2.01 - \$3.00	295	4.24
\$3.01 - \$3.70	101	3.19
	1,895	5.25

(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 as directors 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 consolidated statements of comprehensive income (loss) using the Company's share price as at December 31, 2016. 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. The following table outlines the activity for the DSUs for the year ended December 31, 2016 and 2015:

	2016		2015	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of year	296	\$ 521	233	\$ 290
Granted	97	200	116	200
Exercised	–	–	(53)	(102)
Changes in fair value of the award	–	538	–	133
Outstanding, end of year	393	\$ 1,259	296	\$ 521

NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

15. Share-based payment arrangements (continued):

As at December 31, 2016, the total liability for these DSUs was \$1,259 (2015 - \$521), which is included in non-current liabilities on the consolidated statements of financial position.

16. Income taxes:

(a) 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 income (loss) before income taxes. These differences result from the following items:

	2016	2015
Income (loss) from continuing operations	\$ 586	\$ (1,758)
Combined basic federal and provincial income tax rates	26.5%	26.5%
Computed expected tax expense (recovery)	\$ 155	\$ (466)
Increase resulting from:		
Current year's losses and other differences not recognized	(562)	316
Non-deductible items	407	150
Income tax expense	\$ -	\$ -

The statutory income tax rate was 26.5% for 2016 (2015 - 26.5%) as there was no change in the federal and provincial Canadian income tax rates.

(b) 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 consolidated statements of financial position and the amounts used for income tax purposes.

NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

16. Income taxes (continued):

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

	Non-capital losses	Scientific Research and Experimental Development ("SR&ED") pool carryforward	Total
Deferred tax asset balance, December 31, 2014	\$ 132	\$ 317	\$ 449
Reclassification to discontinued operations	(132)	(317)	(449)
Deferred tax asset balance, December 31, 2015	–	–	–
Origination and reversal of temporary differences	–	–	–
Deferred tax asset balance, December 31, 2016	\$ –	\$ –	\$ –
			Intangible assets
Deferred tax liability balance, December 31, 2014			\$ (465)
Reclassification to discontinued operations			465
Deferred tax liability balance, December 31, 2015			–
Origination and reversal of temporary differences			–
Deferred tax liability balance, December 31, 2016			\$ –
Net deferred tax liability balance, December 31, 2016			\$ –

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

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:

	2016	2015
Non-capital losses	\$ 14,605	\$ 20,296
Undeducted SR&ED expenditures	38,450	34,829
Other deductible temporary differences	6,261	5,858
	<u>\$ 59,316</u>	<u>\$ 60,983</u>

Non-capital loss carryforwards will expire in years 2033 and 2034, 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.

Pursuant to the Arrangement described in note 2(b), NexJ Health Inc.'s unrecognized deferred tax assets were removed from the consolidated value of unrecognized deferred tax assets. At the effective time of the arrangement, NexJ Health Inc. had non-capital losses of approximately \$1,200, and unclaimed SR&ED expenditures available to reduce future years' taxable income of approximately \$370.

(c) Investment tax credits:

The Company claims research and development deductions and related refundable and non-refundable 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"). Although the Company has used its best judgment and understanding of the related income tax legislation in determining the amounts, it is possible that the amounts could change by a material amount in the near term depending on review and audit by CRA.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

16. Income taxes (continued):

The total amount of ITCs recognized were \$265 (2015 - \$240), which were recorded as a reduction of research and development expenses.

The Company has \$11,424 (2015 - \$10,619) of federal non-refundable ITCs and \$2,483 (2015 - \$2,266) of Ontario non-refundable ITCs that can be carried forward to reduce federal and Ontario income tax otherwise payable, respectively. Those credits expire between 2028 and 2036 and have not been recognized in these consolidated financial statements.

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, 2016 and 2015:

Classification	2016		2015	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash equivalents	\$ 10,452	\$ 10,452	\$ 6,277	\$ 6,277
Loans and receivables:				
Accounts receivable	12,573	12,573	8,274	8,274
Assets held for distribution	–	–	222	222
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	7,130	7,130	6,082	6,082
Provisions	224	224	447	447
Finance lease liability	308	308	–	–
Liabilities held for distribution	–	–	427	427

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Notes to Consolidated Financial Statements (continued)
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17. Financial instruments and capital management (continued):

The carrying values of cash and cash equivalents, accounts receivable, assets held for distribution, accounts payable and accrued liabilities and provisions, finance lease liability and liabilities held for distribution 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.

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. Financial assets measured at fair value as at December 31, 2016 and 2015 in the consolidated financial statements are summarized below:

2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 10,452	\$ –	\$ –	\$ 10,452
Financial liabilities:				
Provisions	\$ –	\$ –	\$ 224	\$ 224

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

17. Financial instruments and capital management (continued):

2015	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 6,277	\$ –	\$ –	\$ 6,277
Financial liabilities:				
Provisions	\$ –	\$ –	\$ 447	\$ 447

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

(b) Market risk:

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, 2016:

(i) 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. 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.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

17. Financial instruments and capital management (continued):

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

	Accounts receivable	
	Number of customers	% of total
As at December 31, 2016	3	96
As at December 31, 2015	3	75

	Revenue	
	Number of customers	% of total
Year ended December 31, 2016	4	78
Year ended December 31, 2015	4	69

(ii) Liquidity risk:

Liquidity risk is the risk that the Company may not be 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.

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Notes to Consolidated Financial Statements (continued)
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Years ended December 31, 2016 and 2015

17. Financial instruments and capital management (continued):

(iii) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and Australian 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 and Australian dollars. It is also exposed to foreign currency risk on revenue and expenses where it invoices or procures in U.S. dollars and Australian dollars. During the year ended December 31, 2016, the Company recorded a foreign exchange loss of \$270 (2015 - gain of \$947). At December 31, 2016, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$9,576 (2015 - U.S. \$7,302). At December 31, 2016, Australian dollar-denominated net monetary assets totalled approximately AUD \$536 (2015 - \$1,525). At December 31, 2016, British pound sterling-denominated net monetary assets totalled approximately GBP £2 (2015 - £3).

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 \$1,338 due to the fluctuation and this would be recorded in the consolidated statements of comprehensive income (loss).

(iv) 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.

(c) 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 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.

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Notes to Consolidated Financial Statements (continued)
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17. Financial instruments and capital management (continued):

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. Segment reporting:

The Company has determined that it operates as a single reportable operating segment for purposes of making operating decisions and assessing performance. The Company's Chief Executive Officer, the chief operating decision maker, evaluates performance, makes operating decisions and allocates resources based on financial data consistent with the segmented reporting in these consolidated financial statements.

The following information provides the required enterprise-wide disclosures:

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

	2016	2015
United States of America	\$ 18,171	\$ 12,680
Canada	1,309	3,128
Asia Pacific	2,580	8,020
Europe	11,461	4,752
	<u>\$ 33,521</u>	<u>\$ 28,580</u>

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

NEXJ SYSTEMS INC.

Notes to Consolidated Financial Statements (continued)
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19. 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:

	2016	2015
Salaries and other short-term employee benefits	\$ 1,342	\$ 1,476
Share-based payments	287	84
Long-term incentive and retention plans	1,568	987
	<u>\$ 3,197</u>	<u>\$ 2,547</u>

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:

In 2011, the Company issued interest-free share purchase loans 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, 2016, nil (2015 - nil) was repaid relating to common shares. 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.

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Notes to Consolidated Financial Statements (continued)
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19. Related party transactions (continued):

(c) Interim loan agreement:

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 \$994 as at December 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 December 31, 2016 and concluded that it is impaired and recorded a provision of \$994 in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2016.

(d) Shared services agreement:

Pursuant to the Arrangement, 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 \$636 for these services for the year ended December 31, 2016. Management evaluated the recoverability of these charges, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded it is impaired and recorded a provision of \$636 in the consolidated statements of comprehensive income (loss) for the year ended December 31, 2016.

The terms of the agreements in (a) and (b) above and the related amounts being charged were agreed upon by the parties.

20. Finance income:

	2016	2015
Interest on cash and cash equivalents	\$ 77	\$ 116

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Notes to Consolidated Financial Statements (continued)
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21. Earnings (loss) per share:

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

	2016	2015
Numerator:		
Income (loss) from continuing operations	\$ 586	\$ (1,758)
Loss from discontinued operation	(252)	(5,382)
Net income (loss)	334	(7,140)
Denominator:		
Weighted average number of shares (in thousands):		
Basic	20,206	20,457
Diluted	20,697	20,457
Income (loss) per share:		
Basic and diluted from continuing operations	\$ 0.03	\$ (0.09)
Basic and diluted from discontinued operation	(0.01)	(0.26)
Basic and diluted	0.02	(0.35)

During the year ended December 31, 2016, there were nil (2015 - nil) weighted average outstanding stock options excluded from the computation of diluted earnings (loss) per share as they were anti-dilutive.

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Notes to Consolidated Financial Statements (continued)
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22. Expenses by nature:

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

	2016	2015
Salaries and other short-term employee benefits	\$ 20,635	\$ 19,486
Equity-settled share-based payments	923	510
Cash-settled share-based payments	738	333
Total personnel costs	22,296	20,329
Sales and marketing expense	426	476
Office rent expense	1,633	1,549
Professional, consulting and recruiting costs	3,757	3,771
Technology and communication expenses	1,168	963
Depreciation and amortization expense	857	1,663
Impairment of loan receivable and shared services (note 19)	1,630	–
Other*	975	2,650
Total operating expenses	\$ 32,742	\$ 31,401

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

23. Contractual obligations:

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, 2016 is one year. The Company executed agreements with two separate third parties to sublease a portion of its office space in June 2014 and June 2015, respectively. The subleases are for the remainder of the Company's lease term for the office space (note 11).

In November 2016, the Company entered into a lease agreement to amend the Company's principal facilities lease with the landlord through an operating lease. The amended lease will come into effect on January 1, 2018 after the expiry date of December 31, 2017 of the existing lease. The amended lease will be for a period of five years ending on December 31, 2022.

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Notes to Consolidated Financial Statements (continued)
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23. Contractual obligations (continued):

Total approximate future minimum lease payments for the leased office premises as at December 31, 2016 are as follows:

Less than 1 year	\$ 1,376
Between 1 and 5 years	4,454
	5,830
Less sublease income	325
	\$ 5,505

In addition, the Company is responsible for additional taxes, maintenance and other direct charges with respect to its leased office premises. The additional amount for 2017 is expected to be approximately \$1,548, of which \$617 will be received by the Company from the subleases. From 2018 onwards, the additional amount on an annual basis is expected to be approximately \$1,216.

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. Discontinued operation:

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 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. The Company then distributed the common shares in NexJ Health Holdings Inc. to the Company's shareholders, such that the Company's shareholders received one common share of NexJ Health Holdings Inc. for every common share held in the Company. The effective date of the distribution was January 25, 2016.

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

25. Discontinued operation (continued):

Management determined and concluded that at December 31, 2015, it was highly probable for the Arrangement to be approved by the Company's shareholders. As a result, the Company presented the assets and liabilities of the Healthcare business as at December 31, 2015 as assets and liabilities held for distribution, and the results of operations of the Healthcare business as a discontinued operation. The 2015 comparative figures in the consolidated statements of comprehensive income (loss) and cash flows are represented as if the Healthcare business had been discontinued from the start of the comparative year.

The following is a summary of results of the discontinued operation:

(a) Results of discontinued operation:

	2016	2015
Revenue:		
License and subscription fees	\$ 35	\$ 395
Professional services	8	336
Maintenance and support	2	40
	45	771
Expenses:		
Professional service	42	635
Research and development, net	123	2,141
Sales and marketing	48	1,159
General and administrative	84	1,768
Earn-out recovery (note 13)	-	(398)
Impairment charge (note 8)	-	864
	297	6,169
Loss from operations	(252)	(5,398)
Finance costs	-	-
Loss before income taxes	(252)	(5,398)
Income tax recovery (note 16):		
Current	-	-
Deferred	-	(16)
		(16)
Loss from discontinued operation	\$ (252)	\$ (5,382)

NEXJ SYSTEMS INC.

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

Years ended December 31, 2016 and 2015

25. Discontinued operation (continued):

(b) Cash flows from (used) in discontinued operation:

	2016	2015
Cash flows from (used in) discontinued operation:		
Loss for the year	\$ (252)	\$ (5,382)
Adjustments for:		
Depreciation and amortization	30	250
Earn-out recovery	—	(398)
Deferred tax recovery	—	(16)
Impairment charge (note 8)	—	864
Change in non-cash operating working capital:		
Accounts receivable	(74)	118
Prepaid expenses and other assets	4	(7)
Accounts payable and accrued liabilities and provisions	2	(282)
Deferred revenue	20	(35)
Cash flows used in discontinued operation	\$ (270)	\$ (4,888)

(c) Effect of disposal on the financial position:

	2016	2015
Assets held for distribution:		
Cash and cash equivalents (note 4)	\$ —	\$ 14
Accounts receivable (note 5)	—	222
Prepaid expenses and other assets (note 6)	—	148
Intangible assets (note 8)	—	578
	—	\$ 962
Liabilities held for distribution:		
Accounts payable and accrued liabilities (note 10)	—	\$ 427
Deferred revenue	—	537
	\$ —	\$ 964