

Condensed Interim Consolidated Financial Statements
(Expressed in Canadian dollars)

NEXJ SYSTEMS INC.

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

NEXJ SYSTEMS INC.

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,521	\$ 14,678
Accounts receivable	5,211	12,573
Prepaid expenses and other assets	1,998	1,094
Total current assets	23,730	28,345
Non-current assets:		
Property and equipment	1,555	1,965
Goodwill	1,753	1,753
Other assets	260	260
Total non-current assets	3,568	3,978
Total assets	\$ 27,298	\$ 32,323
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 4,004	\$ 5,871
Deferred revenue	5,022	7,137
Provisions (note 3)	56	224
Current portion of finance lease liability (note 4)	148	148
Total current liabilities	9,230	13,380
Non-current liabilities:		
Accrued liabilities (note 6(b))	–	1,259
Finance lease liability (note 4)	49	160
Deferred revenue	218	–
Total non-current liabilities	267	1,419
Total liabilities	9,497	14,799
Shareholders' equity:		
Share capital (note 5)	82,647	82,648
Share purchase loans	(3,622)	(3,622)
Contributed surplus (note 6)	8,658	7,139
Deficit	(69,882)	(68,641)
Total shareholders' equity	17,801	17,524
Related party transactions (note 8)		
Total liabilities and shareholders' equity	\$ 27,298	\$ 32,323

See accompanying notes to the condensed interim consolidated financial statements.

NEXJ SYSTEMS INC.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue:				
License fees	\$ 557	\$ 1,965	\$ 5,127	\$ 3,454
Professional services	3,109	4,944	10,180	14,853
Maintenance and support	2,037	1,948	5,948	5,638
	5,703	8,857	21,255	23,945
Expenses:				
Professional services	2,456	2,955	8,109	9,185
Research and development, net	1,754	1,843	5,514	5,920
Sales and marketing	718	1,195	3,125	3,384
General and administrative, net	1,434	1,519	5,070	4,736
Impairment of loan receivable and shared services (note 8)	—	466	—	1,460
	6,362	7,978	21,818	24,685
Income (loss) from operations	(659)	879	(563)	(740)
Foreign exchange gain (loss)	(517)	231	(736)	(674)
Finance income	23	15	58	50
	(494)	246	(678)	(624)
Income (loss) from continuing operations	(1,153)	1,125	(1,241)	(1,364)
Loss from discontinued operation (note 11)	—	—	—	(252)
Income (loss) for the period and comprehensive income (loss)	\$ (1,153)	\$ 1,125	\$ (1,241)	\$ (1,616)
Earnings (loss) per share (note 7):				
Basic from continuing operations	\$ (0.06)	\$ 0.06	\$ (0.06)	\$ (0.07)
Diluted from continuing operations	(0.06)	0.06	(0.06)	(0.07)
Basic and diluted from discontinued operation	—	—	—	(0.01)
Basic	(0.06)	0.06	(0.06)	(0.08)
Diluted	(0.06)	0.06	(0.06)	(0.08)
Weighted average number of common shares outstanding, in thousands (note 7):				
Basic	20,626	20,203	20,294	20,259
Diluted	20,626	20,393	20,294	20,259

See accompanying notes to the condensed interim consolidated financial statements.

NEXJ SYSTEMS INC.

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

Nine months ended September 30, 2017	Common shares		Share	Contributed	Deficit	Total shareholders' equity
	Number*	Amount	purchase loans*	surplus		
Balance, January 1, 2017	20,032	\$ 82,648	\$ (3,622)	\$ 7,139	\$ (68,641)	\$ 17,524
Comprehensive loss	–	–	–	–	(1,241)	(1,241)
Share-based payment expense (note 6(a))	–	–	–	187	–	187
Modification of deferred share unit awards (note 6(b))	–	–	–	1,461	–	1,461
Deferred share unit expense (note 6(b))	–	–	–	200	–	200
Exercise of employee stock options (note 6(a))	247	415	–	(329)	–	86
Repurchase of common shares (note 5)	(118)	(416)	–	–	–	(416)
Balance, September 30, 2017	20,161	\$ 82,647	\$ (3,622)	\$ 8,658	\$ (69,882)	\$ 17,801

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At September 30, 2017, 950 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total number of outstanding common shares of 21,111.

Nine months ended September 30, 2016	Common shares		Share	Contributed	Deficit	Total shareholders' equity
	Number*	Amount	purchase loans*	surplus		
Balance, January 1, 2016	20,208	\$ 83,094	\$ (3,622)	\$ 6,293	\$ (68,926)	\$ 16,839
Comprehensive loss	–	–	–	–	(1,616)	(1,616)
Distribution (note 2(b))	–	–	–	–	(49)	(49)
Share-based payment expense (note 6(a))	–	–	–	777	–	777
Exercise of employee stock options (note 6(a))	117	213	–	(68)	–	145
Repurchase of common shares (note 5)	(268)	(571)	–	–	–	(571)
Balance, September 30, 2016	20,057	\$ 82,736	\$ (3,622)	\$ 7,002	\$ (70,591)	\$ 15,525

*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances. At September 30, 2016, 950 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total number of outstanding common shares of 21,007.

See accompanying notes to the condensed interim consolidated financial statements.

NEXJ SYSTEMS INC.

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

	Nine months ended September 30,	
	2017	2016
Cash flows from (used in) operating activities:		
Loss for the period	\$ (1,241)	\$ (1,616)
Adjustments for:		
Impairment of loan receivable and shared services (note 8)	–	1,460
Depreciation and amortization	695	644
Share-based payment expense	187	777
Deferred share unit expense (note 6(b))	200	–
Finance income	(58)	(50)
Foreign exchange gain (loss)	11	(59)
Loss from discontinued operation	–	252
Change in non-cash operating working capital:		
Accounts receivable	7,362	(6,168)
Prepaid expenses and other assets	(904)	(97)
Accounts payable and accrued liabilities and provisions	(1,835)	(147)
Deferred revenue	(1,897)	6,372
	2,520	1,368
Net cash flows used in discontinued operation (note 11)	–	(270)
Net cash flows from operating activities	2,520	1,098
Cash flows from (used in) financing activities:		
Repurchase of common shares	(416)	(571)
Proceeds from exercise of stock options	86	145
Payment of finance lease liability	(111)	(98)
Net cash flows used in financing activities	(441)	(524)
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(283)	(168)
Advances to NexJ Health Inc. (note 8)	–	(1,460)
Distribution, net of cash	–	(40)
Interest received	58	50
Net cash flows used in investing activities	(225)	(1,618)
Effects of exchange rates on cash and cash equivalents	(11)	59
Increase (decrease) in cash and cash equivalents	1,843	(985)
Cash and cash equivalents, beginning of period	14,678	14,699
Cash and cash equivalents, end of period	\$ 16,521	\$ 13,714
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid	\$ 2	\$ 57
Acquisition of property and equipment under finance lease	–	444

See accompanying notes to the condensed interim consolidated financial statements.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

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 condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standard ("IAS") 34, Interim Financial Reporting and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB") and on a basis consistent with the accounting policies disclosed in the annual audited consolidated financial statements as at and for the years ended December 31, 2016 and 2015.

The notes presented in these condensed interim consolidated financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed interim consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements, including the notes thereto, for the years ended December 31, 2016 and 2015.

These condensed interim consolidated financial statements were approved by the Board of Directors on October 26, 2017.

(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.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
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2. Basis of preparation (continued):

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.

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 was charged to deficit on January 25, 2016.

(c) Basis of presentation:

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiary (together referred to as the "Company"). Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions are eliminated in preparing the condensed interim consolidated financial statements. These condensed interim consolidated financial statements have been prepared mainly 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.

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 commencing January 1, 2017, its financial results do not require consolidation. The operating results of Broadstreet for the three months and nine months ended September 30, 2016 are included in these unaudited condensed interim consolidated financial statements.

NEXJ SYSTEMS INC.

Notes to Condensed Interim Consolidated Financial Statements (continued)
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Three and nine months ended September 30, 2017 and 2016
(Unaudited)

2. Basis of preparation (continued):

(d) Recent accounting pronouncements:

A number of new standards and amendments to standards and interpretations are not yet effective for the three and nine months ended September 30, 2017, and have not been applied in preparing these condensed interim consolidated financial statements. In particular, the following relevant new standards that have been issued but are not yet effective:

(i) IFRS 2, Share-based Payments ("IFRS 2"):

IFRS 2 was amended to clarify how to account for certain types of share-based payment transactions. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018 and at this time, no significant impact is expected on the Company's results.

(ii) 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 condensed interim consolidated statements of comprehensive loss. The standard is effective for annual periods beginning on or after January 1, 2018 with retroactive application and at this time, no significant impact is expected on the Company's results.

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

(iii) 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 model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. IFRS 15 also includes a cohesive set of disclosure requirements that would result in an entity providing comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Company will adopt IFRS 15 in its financial statements for the annual period beginning on January 1, 2018. Management is in the process of identifying differences between existing policies and IFRS 15. As a result, the Company is continuing to assess the impact of this standard on the condensed interim consolidated financial statements.

(iv) 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 condensed interim 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, but only if the entity is also applying IFRS 15.

The Company will adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The Company is assessing the impact of this standard on its condensed interim consolidated financial statements and expects that on adoption of the standard there will be an increase to assets and liabilities, as the Company will be required to record a right-of-use asset and a corresponding lease liability on our condensed interim consolidated statements of financial position. In addition, the Company expects a decrease to operating costs, an increase to finance costs (due to accretion of the lease liability) and an increase to depreciation and amortization (due to amortization of the right-of-use asset).

NEXJ SYSTEMS INC.

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

Lease-exit charges:

	Nine months ended September 30,	
	2017	2016
Balance, beginning of period	\$ 224	\$ 447
Provisions used	(168)	(168)
Balance, end of period	\$ 56	\$ 279

The Company vacated portions of its leased office premises in November 2013 and June 2015 and recognized a liability for the discounted future lease payments to which the Company is committed; less expected future sublease income per the sublease agreements as the vacated office facility no longer had any operating business activities.

During the three months and nine months ended September 30, 2017, the Company applied \$304 and \$894 (2016 - \$305 and \$895) of rent paid, respectively, offset by rental income received under the sublease arrangement of \$248 and \$726 (2016 - \$249 and \$727), respectively, relating to the vacated portion of its leased office premises against the provision recorded in the condensed interim consolidated statements of financial position.

4. Finance lease liability:

In February 2016 the Company entered into a three year finance lease for the purchase of computer hardware 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 September 30, 2017 are as follows:

Less than 1 year	\$ 148
Between 1 and 5 years	49
	<u>\$ 197</u>

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

5. Share capital:

The Company has had a Normal Course Issuer Bid ("NCIB") in place in 2015, 2016 and 2017 and has repurchased its common shares through the NCIB. For each of the NCIB in 2015, 2016 and 2017 approved by the Toronto Stock Exchange ("TSX") in August of each respective year, the Company can purchase its common shares through all available markets and/or alternative trading systems, including the facilities of the TSX. Each NCIB is valid for one year and the maximum number of common shares which can be purchased, pursuant to each NCIB, aggregated to 1,000,000 common shares per NCIB, representing approximately 4.7% of the number of common shares issued and outstanding.

During the three and nine months ended September 30, 2017, the Company repurchased and cancelled 47,192 and 118,092 (2016 - 198,334 and 267,900) of its common shares, respectively, through trades on the TSX for an aggregate purchase price of \$137 and \$416 (2016 - \$413 and \$571), respectively, which was recorded as a reduction of share capital.

6. Share-based payment arrangements:

At September 30, 2017, the Company had the following share-based payment arrangements:

(a) Stock option plan:

The total share-based payment expense and the amount credited to contributed surplus for the three and nine months ended September 30, 2017 was \$39 and \$187, respectively (2016 - \$186 and \$777).

On December 1, 2015, the Company modified its stock options plan to cancel and regrant options to existing employees. The cancellation and regrant of options to employees was subject to shareholder approval which was received at the special shareholder meeting held on January 13, 2016. 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 shareholder meeting of January 13, 2016. Subsequent to that date, the original vesting period was automatically reinstated. During the nine months ended September 30, 2016 up to the special shareholder meeting of January 13, 2016, 109,125 issued options were accelerated and exercised. Due to the acceleration and exercise of the options, an additional nil and \$19 was recorded as share-based payment expense for the three and nine months ended September 30, 2016.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

6. Share-based payment arrangements (continued):

The following table outlines the activity for stock options for the nine months ended September 30, 2017 and 2016:

	2017		2016	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of period	1,895	\$ 1.68	2,102	\$ 1.67
Granted	56	3.59	44	2.05
Exercised	(394)	1.59	(117)	1.23
Cancelled	(67)	1.90	(114)	1.97
Outstanding, end of period	1,490	1.77	1,915	1.68
Exercisable, end of period	1,299	\$ 1.70	1,059	\$ 1.75

In the second quarter of 2017, the Company amended its stock option plan and received the required regulatory approvals to include a cashless settlement alternative whereby option holders can either (i) elect to receive shares by delivering cash to the Company in the amount of the options exercised and associated income taxes in connection with such exercise, or (ii) elect to receive a number of whole common shares of the Company equivalent to the market value of the options over the exercise price net of associated income taxes in connection with the exercise. For the three and nine months ended September 30, 2017, 84,658 and 256,441 options were exercised on a cashless settlement basis resulting in issuance of 31,411 and 109,736 common shares of the Company.

NEXJ SYSTEMS INC.

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

At September 30, 2017, 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	1,152	4.87
\$2.01 - \$3.00	222	3.66
\$3.01 - \$3.70	91	2.44
\$4.01 - \$4.50	25	6.48
	1,490	4.57

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

The Company grants DSUs to the independent members of the Board of Directors as their annual remuneration for the services rendered 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 condensed interim consolidated statements of comprehensive loss using the Company's share price as of the reporting date. 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.

In May 2017, the Company modified its DSU plan allowing it to settle the DSUs in cash or equity at the discretion of the Board of Directors and received the required regulatory approvals to issue common shares from treasury to settle DSUs with equity. On June 23, 2017, the modification date, through a resolution of the Board of Directors, all outstanding DSUs and newly granted DSUs will be settled in equity, resulting in a modification of classification of the DSUs from cash settled to equity settled. Accordingly, the Company prospectively began accounting for the 391,691 issued and outstanding DSUs as equity-settled awards. As a result, the Company reclassified \$1,461 from non-current accrued liabilities to contributed surplus in the statements of changes in shareholders' equity, which represents the fair value of these DSU awards at the modification date.

NEXJ SYSTEMS INC.

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

The modification did not result in the recognition of incremental compensation cost as the fair value was equal to the intrinsic value since these DSUs are fully vested, do not have an exercise price or expiry date and are only settled when the board member is no longer rendering service to the Company.

On June 23, 2017, the Company also issued 53,620 DSUs to the directors representing their annual remuneration for the fiscal 2017 and recorded a DSU expense of nil and \$200 with an offsetting credit to contributed surplus in the condensed interim consolidated statements of comprehensive loss for the three and nine months ended September 30, 2017.

The following table outlines the activity for the DSUs for the nine months ended September 30, 2017 and 2016:

	2017		2016	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of period	393	\$ 1,259	296	\$ 521
Granted	53	200	97	200
Changes in fair value of the award	–	202	–	84
Outstanding, end of period	446	\$ 1,661	393	\$ 805

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

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7. Earnings (loss) per share:

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Numerator:				
Income (loss) from continuing operations	\$ (1,153)	\$ 1,125	\$ (1,241)	\$ (1,364)
Loss from discontinued operation	—	—	—	(252)
Income (loss) for the period	(1,153)	1,125	(1,241)	(1,616)
Denominator:				
Weighted average number of shares (in thousands):				
Basic	20,626	20,203	20,294	20,259
Diluted	20,626	20,393	20,294	20,259
Earnings (loss) per share:				
Basic from continuing operations	\$ (0.06)	\$ 0.06	\$ (0.06)	\$ (0.07)
Diluted from continuing operations	(0.06)	0.06	(0.06)	(0.07)
Basic and diluted from discontinued operation	—	—	—	(0.01)
Basic	(0.06)	0.06	(0.06)	(0.08)
Diluted	(0.06)	0.06	(0.06)	(0.08)

During the three and nine months ended September 30, 2017, there were 457 and 239 (2016 - nil and 225) weighted average outstanding stock options excluded from the computation of diluted earnings (loss) per share.

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Notes to Condensed Interim Consolidated Financial Statements (continued)
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8. Related party transactions:

(a) 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 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.

For the three months and six months ended June 30, 2016, management evaluated the recoverability of the loan, including the financial position of NexJ Health Inc. and concluded that \$353 and \$994, being the amount advanced as interim loan up to June 30, 2016, was fully impaired and recorded a provision in the condensed interim consolidated statements of comprehensive loss for the three and six months ended June 30, 2016. As of September 30, 2017, the Company has an interim loan receivable balance of \$994 (December 31, 2016 - \$994), which was fully provided for in the consolidated financial statements during the year ended December 31, 2016.

(b) 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. For these services for the three and nine months ended September 30, 2016, the Company has charged \$170 and \$466, respectively. Management evaluated the recoverability of these charges, including the financial position of NexJ Health Inc. as at September 30, 2016 and concluded it is impaired and recorded a provision of \$466 and \$466 in the condensed interim consolidated statements of comprehensive income (loss) for the three and nine months ended September 30, 2016.

Commencing January 1, 2017, as agreed to between the parties, the Company will charge for facilities and any third party costs paid on behalf of NexJ Health Inc., and accordingly, the Company charged \$103 and \$313 for the three months and nine months ended September 30, 2017, respectively. These amounts are recorded under prepaid expenses and other assets in the condensed interim consolidated statements of financial position and have been paid by NexJ Health Inc. subsequent to their respective period end.

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Notes to Condensed Interim Consolidated Financial Statements (continued)
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8. Related party transactions (continued):

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

9. Financial instruments and capital management:

(a) Classification and fair values of financial instruments:

The following table sets out the Company's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at September 30, 2017 and December 31, 2016:

Classification	September 30, 2017		December 31, 2016	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Held-for-trading:				
Cash equivalents	\$ 8,287	\$ 8,287	\$ 10,452	\$ 10,452
Loans and receivables:				
Accounts receivable	5,211	5,211	12,573	12,573
Financial liabilities:				
Other financial liabilities:				
Accounts payable and accrued liabilities	4,004	4,004	7,130	7,130
Provisions	56	56	224	224
Finance lease liability	197	197	308	308

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

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

9. Financial instruments and capital management (continued):

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 and financial liabilities measured at fair value as at September 30, 2017 and December 31, 2016 in the condensed interim consolidated financial statements are summarized below:

September 30, 2017	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 8,287	\$ –	\$ –	\$ 8,287

Financial liabilities:				
Provisions	\$ –	\$ –	\$ 56	\$ 56

December 31, 2016	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 10,452	\$ –	\$ –	\$ 10,452
Financial liabilities:				
Provisions	\$ –	\$ –	\$ 224	\$ 224

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

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

9. Financial instruments and capital management (continued):

(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 September 30, 2017:

(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.

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

	Revenue	
	Number of customers	% of total
Three months ended September 30, 2017	3	62
Nine months ended September 30, 2017	4	77
Three months ended September 30, 2016	3	71
Nine months ended September 30, 2016	3	68

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

9. Financial instruments and capital management (continued):

	Accounts receivable	
	Number of customers	% of total
As at September 30, 2017	4	78
As at December 31, 2016	3	96

(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.

(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 three and nine months ended September 30, 2017, the Company recorded a foreign exchange gain (loss) of (\$517) and (\$736) (2016 - \$231 and (\$674)), respectively. At September 30, 2017, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$8,523 (December 31, 2016 - U.S. \$13,777) and Australian dollar-denominated net monetary assets totalled approximately AUD \$1,791 (December 31, 2016 - AUD \$460).

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

9. Financial instruments and capital management (continued):

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 \$1,239 due to the fluctuation and this would be recorded in the condensed interim 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.

In managing its capital structure, the Company takes into consideration various factors, including the growth of its business and related infrastructure and the up-front cost of taking on new customers.

The Company's officers and senior management are responsible for managing the Company's capital and do so through quarterly meetings and regular review of financial information. The Company's Board of Directors is responsible for overseeing this process. The Company manages its capital to ensure that there are adequate capital resources while maximizing the return to shareholders through the optimization of the cash flows from operations and shareholders' equity. The Company does not have any externally imposed capital requirements.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

10. 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 condensed interim consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
United States of America	\$ 4,165	\$ 5,509	\$ 15,775	\$ 12,112
Canada	183	191	575	936
Europe	602	2,741	2,728	8,712
Asia Pacific	753	416	2,177	2,185
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 5,703	\$ 8,857	\$ 21,255	\$ 23,945

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

Three and nine months ended September 30, 2017 and 2016
(Unaudited)

11. Discontinued operation:

The following is a summary of results of the discontinued operation for the period from January 1, 2016 to January 24, 2016 as a result of the spin-off of the Healthcare business as described in note 2(b):

(a) Results of discontinued operation:

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Revenue:				
License and subscription fees	\$ –	\$ –	\$ –	\$ 35
Professional services	–	–	–	8
Maintenance and support	–	–	–	2
	–	–	–	45
Expenses:				
Professional services	–	–	–	42
Research and development, net	–	–	–	123
Sales and marketing	–	–	–	48
General and administrative	–	–	–	84
	–	–	–	297
Loss from discontinued operation	\$ –	\$ –	\$ –	\$ (252)

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

	Nine months ended September 30,	
	2017	2016
Cash flows from (used in) discontinued operation:		
Loss for the period	\$ –	\$ (252)
Adjustments for:		
Depreciation and amortization	–	30
Change in non-cash operating working capital:		
Accounts receivable/payable	–	(74)
Prepaid expenses and other assets	–	4
Accounts payable and accrued liabilities and provisions	–	2
Deferred revenue	–	20
Net cash flows used in discontinued operation	\$ –	\$ (270)