

Condensed Interim Financial Statements
(Expressed in Canadian dollars)

NEXJ SYSTEMS INC.

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

NEXJ SYSTEMS INC.

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

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,816	\$ 14,784
Accounts receivable	4,654	5,028
Prepaid expenses and other assets	1,580	1,901
Total current assets	18,050	21,713
Non-current assets:		
Property and equipment	1,241	1,374
Goodwill	1,753	1,753
Contract costs (note 3(a))	216	–
Other assets	260	260
Total non-current assets	3,470	3,387
Total assets	\$ 21,520	\$ 25,100
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 3(a))	\$ 3,098	\$ 3,356
Deferred revenue	5,047	4,601
Provisions (note 5)	51	–
Current portion of finance lease liability (note 6)	49	148
Total current liabilities	8,245	8,105
Non-current liabilities:		
Provisions (note 5)	26	–
Finance lease liability (note 6)	–	12
Deferred revenue	–	68
Total non-current liabilities	26	80
Total liabilities	8,271	8,185
Shareholders' equity:		
Share capital (note 7)	82,899	82,445
Share purchase loans	(3,598)	(3,622)
Contributed surplus (note 8)	8,251	8,663
Deficit	(74,303)	(70,571)
Total shareholders' equity	13,249	16,915
Total liabilities and shareholders' equity	\$ 21,520	\$ 25,100

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

Condensed Interim Statements of Comprehensive Loss

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

(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
Revenue:				
License fees	\$ 615	\$ 557	\$ 1,717	\$ 5,127
Professional services	2,425	3,109	7,904	10,180
Maintenance and support	2,280	2,037	6,641	5,948
	5,320	5,703	16,262	21,255
Expenses:				
Professional services	1,716	2,456	6,080	8,109
Research and development, net	2,332	1,754	6,861	5,514
Sales and marketing (note 3(a))	790	718	2,665	3,125
General and administrative, net	1,336	1,434	4,577	5,070
Restructuring costs (note 9)	–	–	331	–
	6,174	6,362	20,514	21,818
Loss from operations	(854)	(659)	(4,252)	(563)
Foreign exchange gain (loss)	(171)	(517)	239	(736)
Finance income	30	23	107	58
	(141)	(494)	346	(678)
Loss for the period and comprehensive loss	\$ (995)	\$ (1,153)	\$ (3,906)	\$ (1,241)
Loss per share (note 10):				
Basic and diluted	\$ (0.05)	\$ (0.06)	\$ (0.19)	\$ (0.06)
Weighted average number of common shares outstanding, in thousands (note 10):				
Basic and diluted	20,586	20,626	20,551	20,294

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

Nine months ended September 30, 2018	Common shares		Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
	Number*	Amount				
Balance, January 1, 2018	20,082	\$ 82,445	\$ (3,622)	\$ 8,663	\$ (70,571)	\$ 16,915
Impact of IFRS 15 (note 3(a))	–	–	–	–	174	174
Comprehensive loss	–	–	–	–	(3,906)	(3,906)
Share-based payment expense (note 8(a))	–	–	–	165	–	165
Deferred share unit expense (note 8(b))	–	–	–	225	–	225
Exercise of employee stock options (note 8(a))	33	57	–	(83)	–	(26)
Exercise of deferred share units (note 8(b))	87	514	–	(719)	–	(205)
Repayment of share purchase loans by employees (note 7(a))	8	–	24	–	–	24
Repurchase of common shares (note 7(b))	(42)	(117)	–	–	–	(117)
Balance, September 30, 2018	20,168	\$ 82,899	\$ (3,598)	\$ 8,251	\$ (74,303)	\$ 13,249

*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, 2018, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,110.

Nine months ended September 30, 2017	Common shares		Share purchase loans*	Contributed surplus	Deficit	Total shareholders' equity
	Number*	Amount				
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 8(a))	–	–	–	187	–	187
Modification of deferred share unit awards (note 8(b))	–	–	–	1,461	–	1,461
Deferred share unit expense (note 8(b))	–	–	–	200	–	200
Exercise of employee stock options (note 8(a))	247	415	–	(329)	–	86
Repurchase of common shares (note 7(b))	(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.

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

	Nine months ended September 30,	
	2018	2017
Cash flows from (used in) operating activities:		
Loss for the period	\$ (3,906)	\$ (1,241)
Adjustments for:		
Depreciation and amortization	284	695
Amortization of contract costs (note 3(a))	31	-
Share-based payment expense	165	187
Deferred share unit expense (note 8(b))	225	200
Finance income	(107)	(58)
Foreign exchange gain (loss)	(20)	11
Change in non-cash operating working capital:		
Accounts receivable	374	7,362
Prepaid expenses and other assets	321	(904)
Accounts payable and accrued liabilities and provisions	(329)	(1,835)
Deferred revenue	378	(1,897)
Net cash flows from (used in) operating activities	(2,584)	2,520
Cash flows from (used in) financing activities:		
Proceeds from repayment of share purchase loans	24	-
Repurchase of common shares	(117)	(416)
Proceeds (costs) from exercise of stock options	(26)	86
Costs of exercise of deferred share units	(205)	-
Payment of finance lease liability	(111)	(111)
Net cash flows used in financing activities	(435)	(441)
Cash flows from (used in) investing activities:		
Purchase of property and equipment	(75)	(283)
Interest received	106	58
Net cash flows from (used in) investing activities	31	(225)
Effects of exchange rates on cash and cash equivalents	20	(11)
Increase (decrease) in cash and cash equivalents	(2,968)	1,843
Cash and cash equivalents, beginning of period	14,784	14,678
Cash and cash equivalents, end of period	\$ 11,816	\$ 16,521
Supplemental cash flow information:		
Acquisition of property and equipment not yet paid	\$ 76	\$ 2

See accompanying notes to the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(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 intelligent customer management solutions to the financial services industry.

2. Basis of preparation:

(a) Statement of compliance:

These condensed interim 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 using the same accounting policies as described in the Company's December 31, 2017 financial statements except for new policies adopted in the year as described in note 3. The notes presented in these condensed interim 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 financial statements should be read in conjunction with the annual audited financial statements, including the notes thereto, for the years ended December 31, 2017 and 2016.

These condensed interim financial statements were approved by the Board of Directors on October 25, 2018.

(b) Basis of presentation:

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

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies:

Except as described below, the accounting policies applied in these unaudited condensed interim financial statements are the same as those applied in the Company's annual audited financial statements as at and for the years ended December 31, 2017 and 2016.

The changes in accounting policies will also be reflected in the Company's annual financial statements as at and for the year ending December 31, 2018.

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

Effective January 1, 2018, the Company adopted IFRS 15. The Company has adopted IFRS 15, effective January 1, 2018, utilizing the cumulative effect method applying to the contracts that were not completed contracts at January 1, 2018. Under this method, the Company has recognized the cumulative effect of applying IFRS 15 as an adjustment to the opening balance of deficit as at January 1, 2018 without restating the comparative information which continues to be reported under IAS 18 and IAS 11. The Company reviewed its sources of revenue and the contracts that were not completed at January 1, 2018 using the guidance found in IFRS 15 and determined there are no material changes to the timing and measurement of the Company's revenue in the reporting period, as compared to the provisions of the previous standard. However, the adoption has impacted the accounting for contract acquisition costs as well as requiring expanded disclosure on revenue, performance obligations and contract balances. The adjustment to the opening balance of deficit as at January 1, 2018 related to incremental commissions paid to employees for customer contracts which are capitalized as contract costs and are amortized over the pattern of transfer of the related performance obligation within the customer contract.

The Company's accounting policy under IFRS 15 is as follows:

Revenue represents the amount that reflects the consideration the Company expects to receive upon transfer of control of products and services in its contracts with customers, 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").

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

The Company's contracts with customers often include multiple products and services and the Company evaluates these arrangements to determine the appropriate unit of accounting (performance obligation) for revenue recognition purposes based on whether the product or service is distinct from some or all of the other products or services in the arrangement and accounted for as a separate performance obligation. A product or service is distinct if the customer can benefit from it on its own or together with other readily available resources and the Company's promise to transfer the good or service is separately identifiable from other promises in the contractual arrangement with the customer. Non-distinct products and services are combined with other goods or services until they are distinct as a bundle and therefore form a single performance obligation. Where a contract consists of more than one performance obligation, revenue is allocated to each based on their relative estimated standalone selling price ("SSP").

Revenue from the license of software arrangements involving significant implementation or customization that includes sale of software that is not distinct is recognized as a combined performance obligation using the percentage-of-completion method to measure the progress to completion. The Company uses the ratio of incurred labour hours to estimated total labour hours as the measure of its progress to completion on each such combined performance obligation. Revisions in estimates are included in the condensed interim statements of comprehensive loss in the year in which changes occur in the circumstances on which the estimates were based or as a result of new information. Revenue from the license of software that is distinct is recognized upfront at the point in time when the software has been delivered to the customer and the right to use the software has commenced.

Professional services revenue involving significant implementation and customization of software, is recognized by the stage of completion of the performance obligation determined using the percentage-of-completion method noted above. Installation and integration services revenue, when considered distinct is recognized over time as the services are performed. Revenue related to the customer reimbursement of travel related expenses incurred during a project implementation where the Company is the principal in the arrangement is included in the professional services revenue category. Revenue is recognized as costs are incurred.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

PCS revenue is recognized rateably over the term of the support agreement based on the price charged for the same or similar PCS when sold on a stand-alone basis.

The Company recognizes an asset for the incremental costs of obtaining a contract with a customer if it expects the costs to be recoverable, and has determined that such costs meet the requirements to be capitalized. Capitalized contract acquisition costs are amortized consistent with the pattern of transfer to the customer for the goods and services to which the asset relates. The amortization period includes specifically identifiable contract renewals where there is no substantive renewal commission paid on renewals. The expected customer renewal period is estimated based over the life of the intellectual property including expected software upgrades by the customer, which the Company has determined to be approximately three years. The Company applies the practical expedient available under IFRS 15 and does not capitalize incremental costs of obtaining contracts if the amortization period is one year or less.

The timing of revenue recognition often differs from contract payment schedules, resulting in revenue that has been earned but not billed. These amounts are included in unbilled receivables. Amounts billed in accordance with customer contracts, but not yet earned, are recorded and presented as part of deferred revenue.

Significant judgments and estimates:

Contracts with customers often include promises to deliver multiple products and services. Determining whether such bundled products and services are considered to be distinct performance obligations that should be separately recognized; or non-distinct and therefore should be combined with another good or service and recognized as a combined unit of accounting may require significant judgment. The determination of the SSP for distinct performance obligations can also require judgment and estimates. The Company uses a range of amounts to estimate SSP when it sells each of the products and services separately and needs to determine whether there is a discount that needs to be allocated based on the relative SSP of the various products and services. In general, SSP for maintenance and support is established as a percentage of the software license fee as supported by internal analysis of similar vendor contracts. SSP for professional services is established based on observable prices for the same or similar services when sold separately.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

Management exercises judgement in determining whether a contract's outcome can be estimated reliably. Management also applies estimates in the calculation of future contract costs and related profitability as it relates to labour hours and other considerations, which are used in determining the value of amounts recoverable on contracts and timing of revenue recognition. Estimates are continually and routinely revised based on changes in the facts relating to each contract. Judgement is also needed in assessing the ability to collect the corresponding receivables.

Impact of transition to IFRS 15:

Prior to the adoption of IFRS 15, the Company generally expensed incremental commissions as earned by the sales employees to obtain customer contracts over the period of initial software license implementation.

Under IFRS 15, the Company allocates these incremental commission costs to various performance obligations to which they relate using the SSP of the various performance obligations for bundled commissions. For those performance obligations that are expected to be renewed at the end of the initial period without a further commission, the Company has considered expected renewals over the life of the intellectual property including expected upgrades by the customer. The Company has estimated the amortization period is expected to be approximately three years.

The Company expects that the incremental commissions paid as a result of obtaining contracts with customers to be recoverable.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

The following table summarizes the impacts of adopting IFRS 15 at January 1, 2018:

	January 1, 2018 prior to adoption of IFRS 15	Adjustments	January 1, 2018 after adoption of IFRS 15
Non-current assets:			
Contract costs	\$ –	\$ 331	\$ 331
Current liabilities:			
Accounts payable and accrued liabilities	\$ 3,356	\$ 154	\$ 3,510
Non-current liabilities:			
Accrued liabilities	\$ –	\$ 3	\$ 3
Shareholders' equity:			
Deficit	\$ (70,571)	\$ 174	\$ (70,397)

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

The following tables summarizes the impacts of adopting IFRS 15 on the Company's condensed interim statement of financial position as at September 30, 2018:

	September 30, 2018 as reported	Adjustments	September 30, 2018 without adoption of IFRS 15
Non-current assets:			
Contract costs	\$ 216	\$ (216)	\$ –
Current liabilities:			
Accounts payable and accrued liabilities	\$ 3,098	\$ (73)	\$ 3,025
Shareholders' equity:			
Deficit	\$ (74,303)	\$ (143)	\$ (74,446)

In addition, the amortization of contract costs of \$31 was recorded in accordance with IFRS 15 under sales and marketing in the condensed interim statement of comprehensive loss for the nine months ended September 30, 2018.

The adoption of IFRS 15 had no impact to cash flows from or used in operating, financing or investing on the condensed interim financial statements for the three and nine months ended September 30, 2018.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

3. Changes in significant accounting policies (continued):

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

Effective January 1, 2018, the Company adopted IFRS 9, which sets out requirements for recognition and measurement, impairment, derecognition and general hedge accounting. This standard simplifies the classification of a financial asset as either at amortized cost or at fair value as opposed to the multiple classifications which were permitted under IAS 39. This standard also requires the use of a single impairment method as opposed to the multiple methods in IAS 39. All financial assets that are within the scope of IFRS 9 are required to be measured at amortized cost or fair value on the basis of the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The new standard also includes a new expected credit loss model for calculating impairment on financial assets, replacing the incurred loss model under IAS 39. The new impairment model applies to financial assets at amortized cost and contract assets. Furthermore, IFRS 9 also introduces new hedge accounting requirements aligning more closely with an entity's risk management objectives and strategies.

Cash equivalents that were classified as held for trading and accounts receivable that were classified as loans and receivables, respectively, under IAS 39 are now classified as financial assets measured at amortized cost. There is no change to the initial measurement of the Company's financial assets. The adoption of IFRS 9 did not have any material impact on the condensed interim financial statements.

(c) 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 Company adopted this amendment effective January 1, 2018 and it did not have any material impact on the condensed interim financial statements.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

4. Recent accounting pronouncements:

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 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 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 the condensed interim 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).

5. Provisions:

Lease-exit charges:

	Nine months ended September 30,	
	2018	2017
Balance, beginning of period	\$ –	\$ 224
Provisions made	103	–
Provisions used	(26)	(168)
Balance, end of period	\$ 77	\$ 56

The Company had vacated portions of its leased office premises in November 2013 and June 2015 and had recognized a liability for the discounted future lease payments in respective periods to which the Company was committed; less expected future sublease income per the sublease agreements as the vacated office facility no longer had any operating business activities. The term of the sublease agreements ended December 31, 2017 and, accordingly, the Company reassumed the space for its operations.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

5. Provisions (continued):

In April, 2018, the Company vacated a portion of its leased office premises and secured a sub-tenant for the vacated space. During the three and nine months ended September 30, 2018, the Company recognized a provision of \$nil and \$103, respectively, and the charge was recognized as a general and administrative expense in the condensed interim statements of comprehensive loss, for the discounted future lease payments to which the Company is committed; less the expected future sublease income per the sub-lease agreement as the vacated office facility no longer had any operating business activities.

During the three and nine months ended September 30, 2018, the Company applied \$50 and \$100 (2017 - \$304 and \$894) of rent paid, respectively, offset by rental income received under the sublease arrangement of \$37 and \$74 (2017 - \$248 and \$726), respectively, relating to the vacated portion of its leased office premises against the provision recorded in the condensed interim statements of financial position.

6. Finance lease liability:

In February 2016, the Company entered into a 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 maturing in 2019. Total future lease payments as at September 30, 2018 are as follows:

Less than 1 year	\$ 49
Between 1 and 5 years	—
	<hr/> \$ 49

7. Share capital:

(a) In 2011, in preparation of its initial public offering ("IPO"), the Company entered into loan and share pledge agreements with certain employees and officers in order to reduce the amount of the Company's outstanding option pool. The participating employees were given an interest-free share purchase loan to exercise all of the stock options.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

7. 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 similar to the grant of an 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.

During the three and nine months ended September 30, 2018, the Company received repayment of \$nil and \$24 (2017 - \$nil and \$nil), respectively, for nil and 8,437 common shares (2017 - nil and nil) with respect to the share loan and pledge agreements. At September 30, 2018, 941,835 common shares (2017 - 950,272) for proceeds of \$3,598 (2017 - \$3,622) were held as security by the Company with respect to the share loan and pledge agreements.

- (b) The Company has had a Normal Course Issuer Bid ("NCIB") in place in 2017, 2018 and 2019 and has repurchased its common shares through the NCIB. For each of the NCIB in 2017 and 2018 approved by the Toronto Stock Exchange ("TSX") in the prior 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, 2018, the Company repurchased and cancelled nil and 41,628 (2017 - 47,192 and 118,092), respectively, of its common shares through trades on the TSX for an aggregate purchase price of \$nil and \$117 (2017 - \$137 and \$416), respectively, which was recorded as a reduction of share capital.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

8. Share-based payment arrangements:

At September 30, 2018, 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, 2018 was \$76 and \$165, respectively (2017 - \$39 and \$187).

The following table outlines the activity for stock options for the nine months ended September 30, 2018 and 2017:

	2018		2017	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of period	1,475	\$ 1.78	1,895	\$ 1.68
Granted	693	2.11	56	3.59
Exercised	(100)	(1.47)	(394)	1.59
Cancelled	(84)	(2.72)	(67)	1.90
Expired	(12)	(2.50)	–	–
Outstanding, end of period	1,972	1.87	1,490	1.77
Exercisable, end of period	1,257	\$ 1.71	1,299	\$ 1.70

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, 2018, 25,375 and 100,344 options were exercised on a cashless settlement basis resulting in the issuance of 4,096 and 32,791 common shares of the Company.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

8. Share-based payment arrangements (continued):

At September 30, 2018, 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	1,558	4.89
\$2.01 - \$3.00	318	4.36
\$3.01 - \$4.00	77	1.44
\$4.01 - \$4.50	19	5.48
	1,972	4.68

(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 prior to May 2017, these DSUs could only be settled in cash and would have been paid when the board member is no longer rendering service to the Company. Accordingly, the Company had treated these arrangements as cash-settled awards and had recorded the changes in the fair value of the award in the condensed interim statements of comprehensive loss using the Company's share price as of the reporting date. The amount of the award payable was 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 DSUs 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 condensed interim 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 Financial Statements (continued)
(Expressed in thousands of Canadian dollars, except per share amounts)

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

8. 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 fiscal 2017. For the three and nine months ended September 30, 2017, the Company recorded a DSU expense of \$nil and \$200, respectively, with an offsetting credit to contributed surplus in the condensed interim statements of comprehensive loss.

On June 20, 2018, the Company issued 109,224 DSUs to the directors representing their annual remuneration for fiscal 2018. For the three and nine months ended September 30, 2018, the Company recorded a DSU expense of \$nil and \$225, respectively, with an offsetting credit to contributed surplus in the condensed interim statements of comprehensive loss.

On August 8, 2018, 192,823 DSUs were exercised on a cashless settlement basis resulting in the issuance of 86,925 common shares of the Company. The Company remitted \$205 to Canada Revenue Agency in associated employment taxes.

The following table outlines the activity for the DSUs for the nine months ended September 30, 2018 and 2017:

	2018		2017	
	Number (000s)	Amount	Number (000s)	Amount
Outstanding, beginning of period	446	\$ 1,661	393	\$ 1,259
Granted	109	225	53	200
Exercised	(193)	(719)	–	–
Changes in fair value of the award	–	–	–	202
Outstanding, end of period	362	\$ 1,167	446	\$ 1,661
Comprising:				
Equity-settled award	362	\$ 1,167	446	\$ 1,661

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

9. Restructuring costs:

In May 2018, the Company executed a restructuring plan whereby certain employees of the Company were severed. For the three and nine months ended September 30, 2018, a total of \$331 was recorded as restructuring costs, which relates primarily to employee severance costs. During the three and nine months ended September 30, 2018, the Company paid \$65 and \$145, respectively, in restructuring costs. The remaining amount of \$186 recorded under accounts payable and accrued liabilities on the statements of financial position as at September 30, 2018, will be paid out within a one-year period.

10. Loss per share:

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

	Three months ended September 30, 2018		Nine months ended September 30, 2018	
	2018	2017	2018	2017
Numerator:				
Loss for the period	\$ (995)	\$ (1,153)	\$ (3,906)	\$ (1,241)
Denominator:				
Weighted average number of shares (in thousands):				
Basic and diluted	20,586	20,626	20,551	20,294
Loss per share:				
Basic and diluted	\$ (0.05)	\$ (0.06)	\$ (0.19)	\$ (0.06)

During the three and nine months ended September 30, 2018, there were 286 and 437 (2017 - 457 and 239) weighted average outstanding stock options excluded from the computation of diluted loss per share.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

11. Related party transactions:

(a) Interim loan agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., 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. 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 statements of comprehensive loss for the year ended December 31, 2016. During the nine months ended September 30, 2018, no further advances were made to NexJ Health Inc. and the loan continues to be impaired as at September 30, 2018.

(b) Shared services agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., the Company also entered into a shared services agreement with NexJ Health Inc. under which the Company was 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 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 that it was impaired and recorded a provision of \$636 in the statements of comprehensive loss for the year ended December 31, 2016. These amounts continue to be impaired as at September 30, 2018.

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 \$79 and \$301 (2017 - \$103 and \$313) for the three and nine months ended September 30, 2018, respectively. These amounts are recorded under prepaid expenses and other assets in the condensed interim statements of financial position and have been paid by NexJ Health Inc. subsequent to their respective period end.

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

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

12. Financial instruments and capital management:

(a) Classification and fair values of financial instruments:

As required by IFRS 9, at the date of initial application, the Company has classified its financial assets and financial liabilities as measured at amortized cost. 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, 2018 and December 31, 2017:

Classification	September 30, 2018		December 31, 2017	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Amortized cost:				
Cash equivalents	\$ 4,921	\$ 4,921	\$ 7,203	\$ 7,203
Accounts receivable	4,654	4,654	5,028	5,028
Financial liabilities:				
Amortized cost:				
Accounts payable and accrued liabilities	3,098	3,098	3,356	3,356
Provisions	77	77	—	—
Finance lease liability	49	49	160	160

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.

Fair value measurements:

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

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

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

12. Financial instruments and capital management (continued):

In the tables below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. Financial assets and financial liabilities measured at fair value as at September 30, 2018 and December 31, 2017 in the condensed interim financial statements are summarized below:

September 30, 2018	Level 1	Level 2	Level 3	Total
Financial liabilities:				
Provisions	\$ –	\$ –	\$ 77	\$ 77

There were no transfers of financial assets and financial liabilities during the periods 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 September 30, 2018:

(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's customers are generally large financially established organizations which limits the credit risk relating to the customers. In addition, credit reviews by the Company take into account the counterparty's financial position, past experience and other factors.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

12. Financial instruments and capital management (continued):

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

	Revenue	
	Number of customers	% of total
Three months ended September 30, 2018	3	65
Nine months ended September 30, 2018	4	68
Three months ended September 30, 2017	3	62
Nine months ended September 30, 2017	4	77

	Accounts receivable	
	Number of customers	% of total
As at September 30, 2018	3	81
As at December 31, 2017	4	74

(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.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

12. 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 three and nine months ended September 30, 2018, the Company recorded a foreign exchange loss of \$171 and a gain of \$239 (2017 - loss of \$517 and \$736), respectively. At September 30, 2018, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$8,017 (2017 - U.S. \$8,523). At September 30, 2018, Australian dollar-denominated net monetary assets totalled approximately AUD \$1,194 (2017 - AUD \$1,791).

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 \$1,149 due to the fluctuation and this would be recorded in the condensed interim statements of comprehensive 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.

NEXJ SYSTEMS INC.

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

Three and nine months ended September 30, 2018 and 2017
(Unaudited)

12. 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.

13. 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 financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2018	2017	2018	2017
United States of America	\$ 4,051	\$ 4,165	\$ 10,613	\$ 15,775
Canada	223	183	599	575
EMEA	774	602	3,976	2,728
Asia Pacific	272	753	1,074	2,177
	\$ 5,320	\$ 5,703	\$ 16,262	\$ 21,255

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