

Financial Statements  
(Expressed in Canadian dollars)

## **NEXJ SYSTEMS INC.**

Years ended December 31, 2018 and 2017



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## INDEPENDENT AUDITORS' REPORT

To the Shareholders of NexJ Systems Inc.

### ***Opinion***

We have audited the accompanying financial statements of NexJ Systems Inc. (the Entity), which comprise:

- the statements of financial position as at December 31, 2018 and 2017
- the statements of comprehensive loss for the years then ended
- the statements of changes in shareholders' equity for the years then ended
- the statements of cash flows for the years then ended
- and notes to the financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



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### ***Emphasis of Matter***

We draw attention to Note 3(a) to the financial statements which indicates that the Entity has changed its accounting policy for revenue, as a result of the adoption of IFRS 15, Revenue from Contracts with Customers, and has applied that change using the cumulative effect method.

Our opinion is not modified in respect of this matter.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

The engagement partner on the audit resulting in this auditors' report is Lesley Bridget Luk.

Vaughan, Canada

February 14, 2019

# NEXJ SYSTEMS INC.

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

December 31, 2018 and 2017

|  | 2018      | 2017      |
|--|-----------|-----------|
| <b>Assets</b>  |           |           |
| Current assets:                                      |           |           |
| Cash and cash equivalents (note 5)                   | \$ 10,951 | \$ 14,784 |
| Accounts receivable (note 6)                         | 4,876     | 5,028     |
| Prepaid expenses and other assets (note 7)           | 1,688     | 1,901     |
| Total current assets                                 | 17,515    | 21,713    |
| Non-current assets:                                  |           |           |
| Property and equipment (note 8)                      | 1,181     | 1,374     |
| Goodwill (note 9)                                    | 1,753     | 1,753     |
| Contract costs (note 10)                             | 227       | –         |
| Other assets (note 11)                               | 260       | 260       |
| Total non-current assets                             | 3,421     | 3,387     |
| Total assets   | \$ 20,936 | \$ 25,100 |
| <b>Liabilities and Shareholders' Equity</b>          |           |           |
| Current liabilities:                                 |           |           |
| Accounts payable and accrued liabilities (note 12)   | \$ 2,689  | \$ 3,356  |
| Deferred revenue                                     | 4,786     | 4,601     |
| Provisions (note 13)                                 | 51        | –         |
| Current portion of finance lease liability (note 14) | 12        | 148       |
| Total current liabilities                            | 7,538     | 8,105     |
| Non-current liabilities:                             |           |           |
| Provisions (note 13)                                 | 13        | –         |
| Finance lease liability (note 14)                    | –         | 12        |
| Deferred revenue                                     | –         | 68        |
| Total non-current liabilities                        | 13        | 80        |
| Total liabilities                                    | 7,551     | 8,185     |
| Shareholders' equity:                                |           |           |
| Share capital (note 15)                              | 82,905    | 82,445    |
| Share purchase loans (note 15)                       | (3,598)   | (3,622)   |
| Contributed surplus (note 16)                        | 8,366     | 8,663     |
| Deficit  | (74,288)  | (70,571)  |
| Total shareholders' equity                           | 13,385    | 16,915    |
| Related party transactions (note 20)                 |           |           |
| Contractual obligations (note 25)                    |           |           |
| Total liabilities and shareholders' equity           | \$ 20,936 | \$ 25,100 |

See accompanying notes to financial statements.

On behalf of the Board:

"David Yach" \_\_\_\_\_ Director      "William M. Tatham" \_\_\_\_\_ Director

# NEXJ SYSTEMS INC.

## Statements of Comprehensive Loss

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

Years ended December 31, 2018 and 2017

|  | 2018              | 2017              |
|--|-------------------|-------------------|
| Revenue (note 4(a)):   |                   |                   |
| License fees   | \$ 3,329          | \$ 5,786          |
| Professional services  | 10,161            | 13,494            |
| Maintenance and support  | 8,944             | 8,222             |
|  | <u>22,434</u>     | <u>27,502</u>     |
| Expenses:  |                   |                   |
| Professional services  | 7,773             | 10,517            |
| Research and development, net  | 9,269             | 7,418             |
| Sales and marketing  | 3,627             | 4,180             |
| General and administrative, net  | 6,066             | 6,697             |
| Restructuring costs  | 402               | –                 |
|  | <u>27,137</u>     | <u>28,812</u>     |
| Loss from operations   | (4,703)           | (1,310)           |
| Foreign exchange gain (loss)   | 667               | (715)             |
| Finance income (note 21)   | 145               | 95                |
|  | <u>812</u>        | <u>(620)</u>      |
| Loss before income taxes   | (3,891)           | (1,930)           |
| Income taxes (note 17)   | –                 | –                 |
| Loss for the year and comprehensive loss   | <u>\$ (3,891)</u> | <u>\$ (1,930)</u> |
| Loss per share (note 23):  |                   |                   |
| Basic and diluted  | (0.19)            | (0.09)            |
| Weighted average number of common shares<br>outstanding, in thousands (note 23): |                   |                   |
| Basic and diluted  | 20,546            | 20,364            |

See accompanying notes to financial statements.

# NEXJ SYSTEMS INC.

## Statements of Changes in Shareholders' Equity

(Expressed in thousands of Canadian dollars and thousands of common shares)

Years ended December 31, 2018 and 2017

| 2018   | Common shares<br>Number* | Amount           | Share<br>purchase<br>loans* | Contributed<br>surplus | Deficit            | Total<br>shareholders'<br>equity |
|--|--------------------------|------------------|-----------------------------|------------------------|--------------------|----------------------------------|
| Balance, January 1, 2018                                       | 20,082                   | \$ 82,445        | \$ (3,622)                  | \$ 8,663               | \$ (70,571)        | \$ 16,915                        |
| Impact of IFRS 15 (note 4(a))                                  | –                        | –                | –                           | –                      | 174                | 174                              |
| Comprehensive loss   | –                        | –                | –                           | –                      | (3,891)            | (3,891)                          |
| Share-based payment<br>expense (note 16(a)(ii))                | –                        | –                | –                           | 286                    | –                  | 286                              |
| Deferred share unit<br>expense (note 16(b))                    | –                        | –                | –                           | 225                    | –                  | 225                              |
| Exercise of employee<br>stock options (note 16(a)(iii))        | 33                       | 63               | –                           | (89)                   | –                  | (26)                             |
| Exercise of deferred<br>share units (note 16(b))               | 87                       | 514              | –                           | (719)                  | –                  | (205)                            |
| Repayment of share purchase<br>loans by employees (note 15(b)) | 8                        | –                | 24                          | –                      | –                  | 24                               |
| Repurchase of common<br>shares (note 15(c))                    | (42)                     | (117)            | –                           | –                      | –                  | (117)                            |
| <b>Balance, December 31, 2018</b>                              | <b>20,168</b>            | <b>\$ 82,905</b> | <b>\$ (3,598)</b>           | <b>\$ 8,366</b>        | <b>\$ (74,288)</b> | <b>\$ 13,385</b>                 |

\*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 December 31, 2018, 942 common shares were legally issued to employees in connection with these agreements and included in the total outstanding common shares of 21,110.

| 2017   | Common shares<br>Number* | Amount           | Share<br>purchase<br>loans* | Contributed<br>surplus | Deficit            | Total<br>shareholders'<br>equity |
|--|--------------------------|------------------|-----------------------------|------------------------|--------------------|----------------------------------|
| Balance, December 31, 2016                                 | 20,032                   | \$ 82,648        | \$ (3,622)                  | \$ 7,139               | \$ (68,641)        | \$ 17,524                        |
| Comprehensive loss   | –                        | –                | –                           | –                      | (1,930)            | (1,930)                          |
| Share-based payment<br>expense (note 16(a)(ii))            | –                        | –                | –                           | 217                    | –                  | 217                              |
| Modification of deferred<br>share unit awards (note 16(b)) | –                        | –                | –                           | 1,461                  | –                  | 1,461                            |
| Deferred share unit<br>expense (note 16(b))                | –                        | –                | –                           | 200                    | –                  | 200                              |
| Exercise of employee<br>stock options (note 16(a)(iii))    | 254                      | 430              | –                           | (354)                  | –                  | 76                               |
| Repurchase of common<br>shares (note 15(c))                | (204)                    | (633)            | –                           | –                      | –                  | (633)                            |
| <b>Balance, December 31, 2017</b>                          | <b>20,082</b>            | <b>\$ 82,445</b> | <b>\$ (3,622)</b>           | <b>\$ 8,663</b>        | <b>\$ (70,571)</b> | <b>\$ 16,915</b>                 |

\*For accounting purposes, common shares issued pursuant to the share purchase loan and pledge agreements (note 15(b)(i)) are not recognized as outstanding until such time as payments are received on the loan balances. At December 31, 2017, 950 common shares were legally issued to employees in connection with these agreements and included in the total outstanding common shares of 21,032.

See accompanying notes to financial statements.



# NEXJ SYSTEMS INC.

## Statements of Cash Flows

(Expressed in thousands of Canadian dollars)

Years ended December 31, 2018 and 2017

|   | 2018       | 2017       |
|---|------------|------------|
| Cash flows from (used in) operating activities:         |            |            |
| Loss for the year                                       | \$ (3,891) | \$ (1,930) |
| Adjustments for:  |            |            |
| Depreciation and amortization                           | 373        | 920        |
| Change in contract costs (note 10)                      | 104        | –          |
| Share-based payment expense                             | 286        | 217        |
| Deferred share unit expense (note 16(b))                | 225        | 200        |
| Finance income  | (145)      | (95)       |
| Foreign exchange loss (gain)                            | (177)      | 6          |
| Change in non-cash operating working capital:           |            |            |
| Accounts receivable                                     | 152        | 7,545      |
| Prepaid expenses and other assets                       | 213        | (807)      |
| Accounts payable and accrued liabilities and provisions | (760)      | (2,573)    |
| Deferred revenue  | 117        | (2,468)    |
| Net cash flows from (used in) operating activities      | (3,503)    | 1,015      |
| Cash flows from (used in) financing activities:         |            |            |
| Proceeds from repayment of share purchase loans         | 24         | –          |
| Repurchase of common shares                             | (117)      | (633)      |
| Proceeds (costs) from exercise of stock options         | (26)       | 76         |
| Costs of exercise of deferred share units               | (205)      | –          |
| Payment of finance lease liability                      | (148)      | (148)      |
| Net cash flows used in financing activities             | (472)      | (705)      |
| Cash flows from (used in) investing activities:         |            |            |
| Purchase of property and equipment                      | (180)      | (293)      |
| Interest received                                       | 145        | 95         |
| Net cash flows used in investing activities             | (35)       | (198)      |
| Effects of exchange rates on cash and cash equivalents  | 177        | (6)        |
| Increase (decrease) in cash and cash equivalents        | (3,833)    | 106        |
| Cash and cash equivalents, beginning of year            | 14,784     | 14,678     |
| Cash and cash equivalents, end of year                  | \$ 10,951  | \$ 14,784  |
| Supplemental cash flow information:                     |            |            |
| Acquisition of property and equipment not yet paid      | \$ –       | \$ 36      |

See accompanying notes to financial statements.

# NEXJ SYSTEMS INC.

Notes to Financial Statements

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

Years ended December 31, 2018 and 2017

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## 1. Reporting entity:

NexJ Systems Inc. (the "Company") is incorporated in Canada with its corporate headquarters located at 10 York Mills Road, Suite 700, Toronto, Ontario M2P 2G4.

The Company is a provider of intelligent customer management solutions to the financial services industry.

## 2. Basis of preparation:

### (a) Statement of compliance:

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB").

These are the first set of financial statements where IFRS 15, Revenue from Contracts with Customers ("IFRS 15") and IFRS 9, Financial Instruments ("IFRS 9") have been applied. Changes to significant accounting policies are described in note 3.

The accounting policies applied in these financial statements are based on IFRS issued as at February 14, 2019, the date the Board of Directors approved the financial statements.

### (b) Basis of measurement:

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

Presentation of the statements of financial position differentiates between current and non-current assets and liabilities. The statements of comprehensive loss are presented using the function classification for expenses.

### (c) Functional and presentation currency:

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

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 2. Basis of preparation (continued):

### (d) Use of estimates and judgments:

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and other factors that management considers to be relevant. Actual results could differ from these estimates and assumptions.

Judgments, estimates and underlying assumptions are reviewed on an ongoing basis, and revisions to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

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

### (i) Impairment of goodwill:

- Critical judgments in applying accounting policies:

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

- Key sources of estimation uncertainty:

Impairment tests are completed using the higher of fair value less costs to sell, where available, and value-in-use calculations, determined using management's best estimates of future cash flows, long-term growth rates and appropriate discount rates. These valuations are based on management's best estimates of future performance and periods over which value will be derived (note 4(h) and (i)).

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 2. Basis of preparation (continued):

### (ii) Estimation of useful lives of property and equipment:

- Key sources of estimation uncertainty:

Useful lives over which assets are depreciated or amortized are based on management's judgment of future use and performance. Expected useful lives and residual values are reviewed annually for any change to estimates and assumptions (note 4(e)).

### (iii) Fair value of share-based payments:

- Key sources of estimation uncertainty:

Fair value of stock options is determined using the Black-Scholes option pricing model. Inputs to the model are subject to various estimates related to volatility, interest rates, dividend yields and expected life of the stock options issued. Fair value inputs are subject to market factors, as well as internal estimates. Separate from the fair value calculation, the Company estimates the expected forfeiture rate of equity-settled share-based payments based on the historical experience (note 16).

### (iv) Revenue recognition:

- Key sources of estimation uncertainty:

In its determination of the amount and timing of revenue to be recognized, management relies on assumptions and estimates supporting its revenue recognition policy (note 4(a)). Estimates of the percentage of completion for applicable customer projects are based upon current actual and forecasted information and contractual terms.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 2. Basis of preparation (continued):

- Critical judgments in applying accounting policies:

A significant portion of the Company's revenue is generated from large, complex customer contracts and these contracts with customers often include commitments to deliver multiple products and services. Management's judgment is applied in 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.

The determination of the standalone selling price 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 licenses as well as for professional services is established based on observable prices for the same or similar services when sold separately. 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.

### (v) Valuation of accounts receivable:

- Key sources of estimation uncertainty:

The Company reviews the accounts receivable balances on a regular basis and estimates the likelihood of collection and records allowance for estimated losses. Management bases its estimates on historical experience and other relevant factors (note 18(b)).

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 2. Basis of preparation (continued):

(vi) Provisions:

- Key sources of estimation uncertainty:

The measurement of provisions requires management to make estimates based only on the best information available at the reporting date. As additional information becomes available, the Company will reassess the potential liability and, if necessary, revise the provision amounts (note 13), using management's best estimate at that reporting date.

- Critical judgments in applying accounting policies:

Management's judgment is required to assess whether provisions should be recognized or disclosed. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Significant changes in the assumptions, including those with respect to future business plans and estimated cash flows, could materially change the recorded carrying amounts and amounts recognized in the statements of comprehensive loss. Refer to significant accounting policies below for further information with respect to these significant estimates and assumptions.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

### 3. Changes in significant accounting policies:

#### (a) IFRS 15, Revenue from Contracts with Customers ("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 International Accounting Standard ("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 following table summarizes the impacts of adopting IFRS 15 at January 1, 2018:

|   | January 1,<br>2018<br>prior to adoption<br>of IFRS 15 | Adjustments | January 1,<br>2018<br>after adoption<br>of IFRS 15 |
|---|---|-------------|--|
| Non-current assets:                         |   |             |  |
| Contract costs                              | \$ –  | \$ 331      | \$ 331   |
| Current liabilities:                        |   |             |  |
| Accounts payable and<br>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 Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

### 3. Changes in significant accounting policies (continued):

The following table summarizes the impacts of adopting IFRS 15 on the Company's statement of financial position as at December 31, 2018:

|   | December 31,<br>2018<br>as reported | Adjustments | December 31,<br>2018<br>without<br>adoption<br>of IFRS 15 |
|---|-------------------------------------|-------------|---|
| Non-current assets:                         |                                     |             |   |
| Contract costs                              | \$ 227                              | \$ (227)    | \$ –  |
| Current liabilities:                        |                                     |             |   |
| Accounts payable and<br>accrued liabilities | \$ 2,689                            | \$ (88)     | \$ 2,601  |
| Shareholders' equity:                       |                                     |             |   |
| Deficit                                     | \$ (74,288)                         | \$ (139)    | \$ (74,427)   |

In addition, the amortization of contract costs of \$406 was recorded in accordance with IFRS 15 under sales and marketing in the statement of comprehensive loss for the year ended December 31, 2018.

The adoption of IFRS 15 had no impact to cash flows from or used in operating, financing or investing on the financial statements for the year ended December 31, 2018.

#### (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.



# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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### 3. Changes in significant accounting policies (continued):

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 was no change to the initial measurement of the Company's financial assets on adoption of IFRS 9. The adoption of IFRS 9 did not have any material impact on the 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 financial statements.

### 4. Significant accounting policies:

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

#### (a) Revenue recognition:

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 Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. 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 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 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.

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.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

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.

Revenue from the license of software and subscription-based arrangements involving significant implementation or customization essential to the functionality of the software is recognized under contract accounting using the percentage-of-completion method to measure the progress to completion, with consideration for customer acceptance provisions, the timing of payments and the Company's history with similar arrangements. The Company uses the ratio of incurred labour hours to estimated total labour hours as the measure of its progress to completion on each contract.

Revisions in estimates are included in the 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.

License revenue, when services are not deemed essential to the functionality of the software, is recognized when the Company has an executed agreement, the software has been delivered, acceptance is probable, the amount of the fee to be paid by the customer can be reliably measured, and the collection of the related receivable is deemed probable from the outset of the arrangement.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

Professional services revenue, including implementation and customization of software, is recognized by the stage of completion of the customer arrangement at the statements of financial position dates determined using the percentage-of-completion method noted above. Installation and integration services revenue, when deemed not essential to the functionality of the software, is recognized as delivered to the customer, based on the prices charged when these services are sold separately to customers. Out-of-pocket expenditures that are contractually reimbursable from customers are recorded as gross revenue and expenditures.

PCS revenue is recognized ratably over the term of the support agreement based on the price charged for the same or similar PCS when sold in stand-alone PCS renewals with customers, as substantiated by contractual renewal rates and the Company's PCS renewal experience. Revenue not recognized in the statements of comprehensive loss under this policy is classified as deferred revenue in the statements of financial position when amounts have been billed in advance.

The Company also derives software license revenue from subscription-based arrangements where professional services are not essential. In such arrangements, professional services are recognized as delivered to the customer and the subscription revenue is recognized ratably over the applicable customer contract term when delivery has occurred, the sales price is fixed and determinable and collection is reasonably assured.

Revenue from sales through reseller arrangements is recognized when the software license is sold to the end-user customer, and when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is reasonably assured. These customers generally do not have rights of return. Sales of software licenses in which the Company acts as an agent are presented on a net basis in the statements of comprehensive loss as net license reseller revenue.

Amounts are generally billable upon reaching certain performance milestones, as defined by individual contracts. Billings rendered in advance of performance under contracts are recorded as deferred revenue.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

### (b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand and highly liquid instruments with original maturities of three months or less that are subject to an insignificant risk of changes in their fair value, and are used by the Company in the management of its short-term commitments.

### (c) Allowance for doubtful accounts:

The recoverability of the accounts receivable balance is assessed at each reporting date and an allowance for doubtful accounts is deducted from the asset's carrying value if the amount is not considered fully recoverable. Any change in the allowance is recognized within general and administrative costs in the statements of comprehensive loss.

### (d) Property and equipment:

Property and equipment are recorded at cost less accumulated depreciation and amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation and amortization are recognized over the estimated useful lives of the assets using the following bases and annual rates:

| Asset                  | Basis             | Rate   |
|------------------------|-------------------|--|
| Furniture and fixtures | Declining balance | 20%  |
| Computer hardware      | Declining balance | 30%  |
| Office equipment       | Declining balance | 30%  |
| Computer software      | Declining Balance | 100%   |
| Leasehold improvements | Straight line     | Over shorter of estimated useful life and lease term |

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

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

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

### (e) Research and development:

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in the statements of comprehensive loss as an expense in the year in which they are incurred. Development costs that are expected to provide future benefits with reasonable certainty and meet all the criteria for deferral are capitalized. No development costs have been capitalized at December 31, 2018 or 2017.

### (f) Investment tax credits:

The Company is entitled to certain refundable and non-refundable Canadian investment tax credits ("ITCs") for qualifying research and development activities performed in Canada. The ITCs are accounted for as a reduction of the related expenditures for items expensed in the statements of comprehensive loss or as a reduction of the related asset's cost for items capitalized in the statements of financial position when the amount is reliably estimable and realization is reasonably assured.

### (g) Goodwill:

Goodwill represents the excess of the purchase price of acquired businesses over the estimated fair value of the tangible and intangible assets acquired. Goodwill is not amortized and is measured at cost less any subsequent impairment in value.

The acquisition method of accounting is used to account for the business acquisitions as follows:

- (i) consideration transferred is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, and acquisition transaction costs are expensed as incurred;
- (ii) identifiable assets acquired and liabilities assumed are measured at their fair values at the acquisition date;

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

- (iii) the excess of the fair value of consideration transferred, including the recognized amount of any non-controlling interest of the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill; and
- (iv) if the fair value of the consideration transferred is less than the fair value of the net assets acquired, the difference is recognized directly in the statements of comprehensive loss as a bargain purchase gain.

### (h) Impairment:

The carrying amounts of the Company's non-financial assets, other than deferred income tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested for impairment at least annually even if there is no indication of impairment, and the recoverable amount is estimated each year at December 31.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates largely independent cash flows. For the purposes of goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU, or the group of CGUs, that is expected to benefit from the synergies of the combination and reflects the lowest level at which that goodwill is monitored for internal reporting purposes. The recoverable amount of a CGU is the greater of its value-in-use and its fair value less costs to sell. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset, or its CGU, exceeds its estimated recoverable amount. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the unit on a pro rata basis. Impairment losses are recognized in the statements of comprehensive loss.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

An impairment loss in respect of goodwill cannot be reversed. In respect of other non-financial assets, impairment losses recognized in prior years are assessed at each reporting date for any indications that the impairment loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the asset or CGU's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

(i) Employee benefits:

(i) Termination benefits:

Termination benefits are recognized as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy.

Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy; it is probable that the offer will be accepted and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

(ii) Short-term employee benefits:

Short-term employee benefit obligations are measured on an undiscounted basis and are recognized as the related service is provided.

(j) Share-based payment transactions:

(i) Share-based payment plan:

The Company has a share-based payment plan under which the Company issues stock options. Stock options generally vest, either over a three-year or four-year vesting periods with 25% of the options vested and exercisable after the first year and the remainder vested and exercisable in equal quarterly instalments over the remaining two years or three years, respectively; or over a two-year vesting period with options vested and exercisable in 8 equal quarterly instalments. The Company applies a fair value method of accounting to each instalment of stock options granted to employees.



# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

The grant date fair value of stock options granted to employees is recognized as share-based compensation expense, with a corresponding increase to contributed surplus, over the period that the employees become unconditionally entitled to the stock options. The expense is adjusted to reflect the estimated number of options expected to vest at the end of the vesting period. Compensation cost is recognized so that each tranche in an award with graded vesting is considered a separate grant with a different vesting date and fair value. No compensation expense is recognized for options that are forfeited and have not met the service requirement for vesting. When options are exercised, the proceeds, as well as the related amount in contributed surplus, are credited to share capital. The Company uses the Black-Scholes option pricing model to determine fair value of stock options at the grant date. Measurement inputs include the price of shares on the measurement date, exercise price of the option, expected volatility, weighted average expected life of the option (based on historical experience and option holder behaviour), expected dividends and the risk-free interest rate.

### (ii) Deferred share unit ("DSU") plan:

The Company has a DSU plan under which the Company issues DSUs for directors' annual remuneration. Until May 2017, these DSUs were classified as cash-settled units as these met the definition of a financial liability and, based on the expected timing of payment, were recorded as non-current liabilities. Commencing May 2017, the Company prospectively modified its DSU plan allowing it to settle the DSUs in cash or equity. After the modification date, all existing and newly granted DSUs will be settled in equity (note 16(b)). These DSUs are now recorded as contributed surplus in the statements of changes in shareholders' equity. The measurement of the compensation costs for these awards is based on the fair value of the award at the date of the grant. 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.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

### (k) Loss per share:

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated by dividing the loss for the year by the sum of the weighted average number of common shares outstanding and the dilutive common share equivalents outstanding during the year. Common share equivalents consist of the shares issuable upon exercise of stock options calculated using the treasury stock method. Common share equivalents are not included in the calculation of the weighted average number of shares outstanding for diluted loss per share when the effect would be anti-dilutive.

### (l) Income taxes:

Income tax expense comprises current and deferred income taxes. Income tax expense is recognized in the statements of comprehensive loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income (loss).

Current income tax is the expected income tax payable or receivable on the taxable income or loss for the year using income tax rates enacted or substantively enacted at the reporting date, and any adjustments to income tax payable in respect of previous years.

Deferred income tax assets and liabilities are recognized for the future income tax consequences attributable to temporary differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases, as well as for the benefit of losses available to be carried forward to future years for tax purposes. Deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

Deferred income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered and settled. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the statements of comprehensive loss in the year that includes the enactment or substantive enactment date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

In determining the amount of current and deferred taxes, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its tax liabilities for uncertain tax positions are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

### (m) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies at the reporting dates are translated into the functional currency at the exchange rates at those dates. Non-monetary assets and liabilities denominated in foreign currencies that are measured in terms of historical cost are translated at rates of exchange at each transaction date. Revenue and expenses are translated at rates of exchange in effect at the time of the transactions, except to the extent that they relate to items translated at historical rates; in which case, historical rates are applied. Foreign exchange gains or losses on translation are recognized in the statements of comprehensive loss.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

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

### (n) Lease payments:

Payments made under operating leases are recognized in the statements of comprehensive loss on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

### (o) Financial instruments:

#### (i) Recognition, classification and measurement:

Financial assets are classified and measured based on the business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. IFRS 9 contains three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income ("FVTOCI"), and fair value through profit and loss ("FVTPL"). Financial assets are recognized in the statements of financial position if the Company has a contractual right to receive cash or other financial assets from another entity. Financial assets are derecognized when the rights to receive cash flows from the asset have expired or were transferred and the Company has transferred substantially all risks and rewards of ownership.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

All financial liabilities are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instruments. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired.

Financial instruments are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

The Company has classified its cash equivalents, accounts receivable, accounts payable and accrued liabilities as financial assets and financial liabilities measured at amortized cost. Such assets and liabilities are recognized initially at fair value inclusive of any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, less any impairment losses.

Financial assets and financial liabilities are offset and the net amount presented in the statements of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

### (ii) Impairment of financial instruments:

The Company recognizes loss allowances for expected credit losses on financial assets measured at amortized cost. Loss allowances for accounts receivables and contracts assets are always measured at an amount equal to lifetime expected credit losses if the amount is not considered fully recoverable. A financial asset carried at amortized cost is considered credit-impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset that can be estimated reliably. Individually significant financial assets are tested for credit-impairment on an individual basis. The remaining financial assets are assessed collectively.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in the statements of comprehensive loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statements of comprehensive loss.

### (iii) Share capital:

Common shares are classified as shareholders' equity. Incremental costs directly attributable to the issuance of common shares and share options are recognized as a deduction from shareholders' equity, net of any tax effects.

### (p) Provisions:

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions also include onerous contracts, which are recognized when the expected benefits to be derived by the Company from a contract are lower than unavoidable cost of meeting its obligations under the contract.

Provisions are measured at the estimated future cash flows required to settle the present obligation, based on the most reliable evidence available at the reporting date. The estimated cash flows are discounted at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortization of the discount is recognized as finance cost.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 4. Significant accounting policies (continued):

### (q) Finance income and finance costs:

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

### (r) Recent accounting pronouncements:

The following relevant new and amended standard and interpretation is required to be implemented for financial years beginning on or after January 1, 2019:

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

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees. The standard will supersede the current lease guidance including IAS 17, Leases, and related Interpretations when it becomes effective for accounting periods beginning on or after January 1, 2019. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognized. The only exceptions are short-term and low-value leases.

Also, depreciation of right-of-use assets and interest on lease liabilities will be recognized in the statements of comprehensive loss in replacement of previously recorded operational expenses for lease payments.

The Company will apply the standard from its mandatory adoption date of January 1, 2019, using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognized as an adjustment to the opening balance of retained earnings at January 1, 2019, with no restatement of comparative information. While the Company continues to assess the potential impact of the new standard, it currently believes the most significant impact will relate to the reclassification as financial lease of the operational lease for its office space, in which the Company acts as a lessee, and the two sub-lease agreements for part of this office space, currently in place and in which the Company acts as an intermediate lessor.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 5. Cash and cash equivalents:

|                            | 2018      | 2017      |
|----------------------------|-----------|-----------|
| Cash and cash equivalents: |           |           |
| Bank balances              | \$ 1,142  | \$ 7,581  |
| Call deposits              | 9,809     | 7,203     |
|                            | \$ 10,951 | \$ 14,784 |

The Company's exposure to interest rate risk is discussed in note 18(b).

## 6. Accounts receivable:

|                                 | 2018     | 2017     |
|---------------------------------|----------|----------|
| Accounts receivable, gross      | \$ 4,876 | \$ 5,028 |
| Allowance for doubtful accounts | –        | –        |
|                                 | \$ 4,876 | \$ 5,028 |

For the year ended December 31, 2018, general and administrative expenses include bad debt expense of nil (2017 - nil). The aging of the gross accounts receivable at each reporting date was as follows:

|                      | 2018     | 2017     |
|----------------------|----------|----------|
| Current              | \$ 4,476 | \$ 2,369 |
| Past due 1 - 90 days | 400      | 2,659    |
|                      | \$ 4,876 | \$ 5,028 |

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

|                            | 2018 | 2017 |
|----------------------------|------|------|
| Balance, beginning of year | \$ – | \$ – |
| Write-offs                 | –    | –    |
| Balance, end of year       | \$ – | \$ – |

The Company's exposure to credit risk is discussed in note 18(b).



# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 7. Prepaid expenses and other assets:

|   | 2018            | 2017            |
|---|-----------------|-----------------|
| Prepaid expenses                          | \$ 535          | \$ 527          |
| Indirect taxes receivable                 | 210             | 435             |
| Ontario investment tax credits receivable | 480             | 505             |
| Ontario co-op credits receivable          | 130             | 164             |
| Other                                     | 333             | 270             |
|   | <b>\$ 1,688</b> | <b>\$ 1,901</b> |

## 8. Property and equipment:

### (a) Cost:

|                            | Furniture<br>and<br>fixtures | Computer<br>hardware | Office<br>equipment | Computer<br>software | Leasehold<br>improvements | Total           |
|----------------------------|------------------------------|----------------------|---------------------|----------------------|---------------------------|-----------------|
| Balance, December 31, 2016 | \$ 1,047                     | \$ 3,282             | \$ 280              | \$ 676               | \$ 2,446                  | \$ 7,731        |
| Additions                  | 68                           | 248                  | 12                  | 1                    | –                         | 329             |
| Balance, December 31, 2017 | 1,115                        | 3,530                | 292                 | 677                  | 2,446                     | 8,060           |
| Additions                  | –                            | 134                  | 8                   | 13                   | 25                        | 180             |
| Balance, December 31, 2018 | <b>\$ 1,115</b>              | <b>\$ 3,664</b>      | <b>\$ 300</b>       | <b>\$ 690</b>        | <b>\$ 2,471</b>           | <b>\$ 8,240</b> |

### (b) Accumulated depreciation and amortization:

|                               | Furniture<br>and<br>fixtures | Computer<br>hardware | Office<br>equipment | Computer<br>software | Leasehold<br>improvements | Total           |
|-------------------------------|------------------------------|----------------------|---------------------|----------------------|---------------------------|-----------------|
| Balance, December 31, 2016    | \$ 719                       | \$ 2,240             | \$ 186              | \$ 666               | \$ 1,955                  | \$ 5,766        |
| Depreciation and amortization | 71                           | 326                  | 26                  | 6                    | 491                       | 920             |
| Balance, December 31, 2017    | 790                          | 2,566                | 212                 | 672                  | 2,446                     | 6,686           |
| Depreciation and amortization | 60                           | 278                  | 23                  | 11                   | 1                         | 373             |
| Balance, December 31, 2018    | <b>\$ 850</b>                | <b>\$ 2,844</b>      | <b>\$ 235</b>       | <b>\$ 683</b>        | <b>\$ 2,447</b>           | <b>\$ 7,059</b> |

### (c) Carrying amounts:

|                            | Furniture<br>and<br>fixtures | Computer<br>hardware | Office<br>equipment | Computer<br>software | Leasehold<br>improvements | Total    |
|----------------------------|------------------------------|----------------------|---------------------|----------------------|---------------------------|----------|
| Balance, December 31, 2017 | \$ 325                       | \$ 964               | \$ 80               | \$ 5                 | \$ –                      | \$ 1,374 |
| Balance, December 31, 2018 | 265                          | 820                  | 65                  | 7                    | 24                        | 1,181    |

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 9. Goodwill:

### (a) Cost:

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|                                     |          |
|-------------------------------------|----------|
| Balance, December 31, 2017 and 2018 | \$ 3,640 |
|-------------------------------------|----------|

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### (b) Impairment losses:

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|                            |          |
|----------------------------|----------|
| Balance, December 31, 2016 | \$ 1,887 |
| Impairment                 | —        |

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|                            |       |
|----------------------------|-------|
| Balance, December 31, 2017 | 1,887 |
| Impairment                 | —     |

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|                            |          |
|----------------------------|----------|
| Balance, December 31, 2018 | \$ 1,887 |
|----------------------------|----------|

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### (c) Carrying amounts:

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|                                     |          |
|-------------------------------------|----------|
| Balance, December 31, 2017 and 2018 | \$ 1,753 |
|-------------------------------------|----------|

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### (d) Impairment:

The Company has concluded that it has one single operating CGU. The Company tested goodwill for impairment as at December 31, 2018. The recoverable amount of the CGU was determined based on value-in-use calculations, using management's discounted estimated future cash flows over a period of 5 years along with a terminal value. The terminal value is the value attributed to the CGU's operations beyond the projected time period. The terminal value for the CGU was determined using an estimated long-term growth rate of 3%, which is based on the Company's estimates of expected future operating results after considering future business plans, economic conditions and a general outlook for the industry in which the CGU operates.

In calculating the recoverable amount of the CGU, a pre-tax discount rate is used. The pre-tax discount rate range applied was 18% to 20%, which was set considering the weighted average cost of capital of the CGU and certain risk premiums, based on management's past experience.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 9. Goodwill (continued):

These assumptions are subjective judgments and estimates based on the Company's experience and knowledge of the economic environment in which it operates. It is possible that, if future cash flow projections, long-term growth rates or pre-tax discount rates are different to those used, the outcome of future impairment tests could result in a different outcome with the CGU's goodwill being impaired. Based on the sensitivity analysis performed, the Company has concluded that no reasonably possible changes in key assumptions on which the recoverable amount is based would cause the carrying amount of the CGU to exceed its recoverable amount as at December 31, 2018.

## 10. Contract costs:

|                                | 2018   | 2017 |
|--------------------------------|--------|------|
| Balance, January 1 (note 3(a)) | \$ 331 | \$ – |
| Contract costs incurred        | 302    | –    |
| Amortization                   | (406)  | –    |
| Balance, December 31           | \$ 227 | \$ – |

Contract assets are costs incurred to obtain contracts, which primarily relate to incremental commission fees paid to certain sales and marketing employees as a result of obtaining client contracts.

These 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. In 2018, amortization amounting to \$406 (2017 - nil) was recognized as part sales and marketing in the statements of comprehensive loss.

## 11. Other non-current assets:

Other non-current assets represents rental deposits of \$260 (2017 - \$260) for the leased office premises, which are released at specified dates during the lease term and expire in 2022.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 12. Accounts payable and accrued liabilities:

|                               | 2018            | 2017            |
|-------------------------------|-----------------|-----------------|
| Trade payables                | \$ 890          | \$ 740          |
| Employee compensation payable | 253             | 1,114           |
| Accrued expenses              | 1,546           | 1,502           |
|                               | <u>\$ 2,689</u> | <u>\$ 3,356</u> |

## 13. Provisions:

| Lease-exit charges   | 2018         | 2017        |
|----------------------|--------------|-------------|
| Balance, January 1   | \$ –         | \$ 224      |
| Provisions made      | 103          | –           |
| Provisions used      | (39)         | (224)       |
| Balance, December 31 | <u>\$ 64</u> | <u>\$ –</u> |

| Lease-exit charges   | 2018         | 2017        |
|----------------------|--------------|-------------|
| Short term           | \$ 51        | \$ –        |
| Long term            | 13           | –           |
| Balance, December 31 | <u>\$ 64</u> | <u>\$ –</u> |

The Company 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 (note 25).

During the year ended December 31, 2018, the Company applied \$150 (2017 - \$1,168) of rent paid, offset by rental income received under the sublease arrangement of \$111 (2017 - \$944), relating to the vacated portion of its leased office premises against the provision recorded in the statements of financial position (note 25).

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 13. 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 year ended December 31, 2018, the Company recognized a provision of \$103 and the charge was recognized as a general and administrative expense in the 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.

## 14. Finance lease liability:

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

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

|                       | 2018  | 2017   |
|-----------------------|-------|--------|
| Less than 1 year      | \$ 12 | \$ 148 |
| Between 1 and 5 years | –     | 12     |
|                       | \$ 12 | \$ 160 |

## 15. Share capital:

(a) Authorized:

The authorized capital of the Company consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series. No preferred shares have been issued.

Each common share of the Company entitles its holder to one vote at all meetings of shareholders subject to certain restrictions with respect to the voting rights.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 15. Share capital (continued):

Each common share of the Company is also entitled to receive dividends if, as and when declared by the Board of Directors. Holders of common shares will participate in any distribution of net assets of the Company upon liquidation, dissolution or winding up of the Company on an equal basis per share, but subject to the rights of the holders of the preferred shares.

### (b) Issued:

As at December 31, 2018, 21,110,693 common shares were issued (2017 - 21,031,987).

- (i) On March 28, 2011, in preparation of its initial public offering ("IPO"), the Company entered into loan and share pledge agreements with certain employees and officers ("Exercise Persons") in order to reduce the amount of the Company's outstanding option pool. The participating employees were issued an interest-free share purchase loan to exercise all of their granted and outstanding options as at March 28, 2011, which were originally scheduled to vest on or prior to December 31, 2011. The Company provided \$3,745 in share purchase loans to facilitate the issuance of 970,898 common shares as a result of the acceleration involving the exercise of the applicable employee stock options. On May 2, 2011, as part of the March 28, 2011 loan and share pledge agreements, the Company provided an additional \$97 in share purchase loans to facilitate the issuance of 28,123 common shares as a result of the acceleration involving the exercise of the applicable employee stock options.

These shares acquired upon exercise of the employee stock options are pledged as security against the share purchase loans and are held as security by the Company until such time as the individual loans are repaid. The share purchase loans are immediately due and payable to the Company upon the sale of the common shares or upon the termination of employment, subject to certain conditions being met. Despite their legal form, the share purchase loans are accounted for on the same basis as a grant of a stock option under IFRS. As such, for accounting purposes, the common shares issued and the share purchase loans granted under the loan and share pledge agreements are not recognized as outstanding until such time as payments are received on the loan balances.

At December 31, 2018, 941,835 common shares (2017 - 950,272) for proceeds of \$3,598 (2017 - \$3,622) based on the grant-date value of the loans were held as security by the Company with respect to the share purchase loan and pledge agreements.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 15. Share capital (continued):

- (c) 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, 2018 and 2019 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 year ended December 31, 2018, the Company repurchased and cancelled 41,628 (2017 - 203,920) of its common shares through trades on the TSX for an aggregate purchase price of \$117 (2017 - \$633), which was recorded as a reduction of share capital.

## 16. Share-based payment arrangements:

At December 31, 2018, the Company had the following share-based payment arrangements:

### (a) Stock option plan:

- (i) On April 21, 2011, the Board of Directors approved an amended stock option plan (the "2011 Option Plan"), effective upon closing of the IPO, for the purpose of recognizing contributions made by employees, officers and others by granting to them options to purchase common shares of the Company. All options granted under the previous option plan and all new options granted under the 2011 Option Plan are now governed by the 2011 Option Plan. The 2011 Option Plan reduces the contractual life of the options to seven years for new options issued; the options issued prior to the 2011 Option Plan will continue to have a contractual life of 10 years. The 2011 Option Plan also mandates that the maximum aggregate number of outstanding options shall not exceed 10% of the outstanding common shares at the relevant grant date.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 16. Share-based payment arrangements (continued):

The fair value of each option granted has been estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions at the measurement date:

|                          | 2018 | 2017 |
|--------------------------|------|------|
| Risk-free interest rates | 2.1% | 1.4% |
| Expected life (years)    | 4.4  | 4.6  |
| Volatility               | 65%  | 65%  |
| Forfeiture rate          | 15%  | 17%  |

The weighted average grant date fair value of options granted during the year was \$1.22 (2017 - \$1.72). The grant date fair value of the options granted during the year ended December 31, 2018, net of forfeitures, was \$639 (2017 - \$98), which will be recognized over the three-year or four-year vesting period with 25% of the options vested after the first year and the remainder vesting in equal quarterly instalments over the remaining two-year or three-year vesting period, respectively.

- (ii) The total share-based payment expense and the amount credited to contributed surplus for the year ended December 31, 2018 was \$286 (2017 - \$217).

The following table outlines the activity for stock options for the years ended December 31, 2018 and 2017:

|                                | 2018                        |                                 | 2017                        |                                 |
|--------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|
|                                | Number of options<br>(000s) | Weighted average exercise price | Number of options<br>(000s) | Weighted average exercise price |
| Outstanding, beginning of year | 1,475                       | \$ 1.78                         | 1,895                       | \$ 1.68                         |
| Granted                        | 693                         | 2.11                            | 76                          | 3.26                            |
| Exercised                      | (110)                       | 1.47                            | (414)                       | 1.58                            |
| Cancelled                      | (95)                        | 2.61                            | (79)                        | 1.93                            |
| Expired                        | (12)                        | 2.50                            | (3)                         | 2.50                            |
| Outstanding, end of year       | 1,951                       | 1.87                            | 1,475                       | 1.78                            |
| Exercisable                    | 1,248                       | \$ 1.71                         | 1,381                       | \$ 1.69                         |



# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 16. Share-based payment arrangements (continued):

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 price of the options over the exercise price net of associated income taxes in connection with the exercise. For the year ended December 31, 2018, of the 110,344 (2017 - 413,717) options exercised, 110,344 (2017 - 275,753) options were exercised on a cashless settlement basis resulting in issuance of 33,409 (2017 - 115,683) common shares of the Company. The Company remitted \$26 (2017 - \$142) to Canada Revenue Agency ("CRA") in employment taxes associated with options exercised on a cashless settlement basis for the year ended December 31, 2018.

At December 31, 2018, the following table provides the outstanding options at their respective exercise prices and the related weighted average remaining contractual life:

| Exercise price  | Number<br>outstanding<br>(000s) | Weighted<br>average<br>remaining<br>contractual<br>life<br>(years) |
|-----------------|---------------------------------|--|
| \$1.00 - \$2.00 | 1,537                           | 4.64   |
| \$2.01 - \$3.00 | 318                             | 4.11   |
| \$3.01 - \$4.00 | 77                              | 1.19   |
| \$4.01 - \$4.50 | 19                              | 5.23   |
|                 | 1,951                           | 4.42   |

### (b) Deferred share units:

The Company grants DSUs to the independent members of the Board of Directors as their annual remuneration for the services rendered as directors on the Company's board. These DSUs vest immediately and 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 statements of comprehensive loss using the Company's share price as of the reporting date.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 16. Share-based payment arrangements (continued):

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 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 and, 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.

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 year ended December 31, 2017, the Company recorded a DSU expense of \$200, with an offsetting credit to contributed surplus in the 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 year ended December 31, 2018, the Company recorded a DSU expense of \$225, with an offsetting credit to contributed surplus in the 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.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 16. Share-based payment arrangements (continued):

The following table outlines the activity for the DSUs for the year ended December 31, 2018 and 2017:

|                                    | 2018             |          | 2017             |          |
|------------------------------------|------------------|----------|------------------|----------|
|                                    | Number<br>(000s) | Amount   | Number<br>(000s) | Amount   |
| Outstanding, beginning of year     | 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 year           | 362              | \$ 1,167 | 446              | \$ 1,661 |

## 17. Income taxes:

(a) Deferred income tax expense (recovery):

|  | 2018   | 2017 |
|--|--------|------|
| Deferred income tax expense (recovery):                            |        |      |
| Origination and reversal of temporary differences                  | \$ 183 | \$ – |
| Change in unrecognized losses and deductible temporary differences | (183)  | –    |
|  | \$ –   | \$ – |

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 17. Income taxes (continued):

### (b) Income tax rate reconciliation:

The effective income tax rate differs from the statutory rate that would be obtained by applying the combined Canadian basic federal and provincial income tax rate to income (loss) before income taxes. These differences result from the following items:

|  | 2018       | 2017       |
|--|------------|------------|
| Income (loss) from continuing operations                   | \$ (3,891) | \$ (1,930) |
| Combined basic federal and provincial income tax rates     | 26.5%      | 26.5%      |
| Computed expected tax expense (recovery)                   | \$ (1,031) | \$ (512)   |
| Increase resulting from:                                   |            |            |
| Current year's losses and other differences not recognized | 1,066      | 392        |
| Recognition of previously unrecognized losses              | (183)      | —          |
| Non-deductible items                                       | 148        | 120        |
| Income tax expense   | \$ —       | \$ —       |

The statutory income tax rate was 26.5% for 2018 (2017 - 26.5%) as there was no change in the federal and provincial Canadian income tax rates.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 17. Income taxes (continued):

### (c) Recognized and unrecognized deferred income taxes:

Deferred income taxes reflect the net income tax effects of temporary differences between the carrying amounts of assets and liabilities in the statements of financial position and the amounts used for income tax purposes.

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

|   |    | Losses  | Total      |
|---|----|---------|------------|
| Deferred income tax asset<br>balance, January 1, 2017   | \$ | –       | \$ –       |
| Recognized in profit or loss                            |    | –       | –          |
| Deferred income tax asset<br>balance, December 31, 2017 |    | –       | –          |
| Recognized in profit or loss                            |    | 182,928 | 182,928    |
| Deferred income tax asset balance,<br>December 31, 2018 | \$ | 182,828 | \$ 182,928 |

|  | Property<br>and<br>equipment | Reserves    | Total        |
|--|------------------------------|-------------|--------------|
| Deferred income tax liability<br>balance, January 1, 2017                    | \$ –                         | \$ –        | \$ –         |
| Recognized in profit or loss   | –                            | –           | –            |
| Deferred income tax liability<br>balance, December 31, 2017                  | –                            | –           | –            |
| Recognized in profit or loss   | (122,773)                    | (60,155)    | (182,928)    |
| Recognized in profit or loss   | (122,773)                    | (60,155)    | (182,928)    |
| Deferred income tax liability<br>balance, December 31, 2018                  | \$ (122,733)                 | \$ (60,155) | \$ (182,928) |
| Net deferred tax asset<br>reported on the statement<br>of financial position | \$ –                         | \$ –        | \$ –         |

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 17. Income taxes (continued):

The amount of deductible temporary differences and unused tax losses for which no deferred income tax assets have been recognized are as follows:

|  | 2018             | 2017             |
|--|------------------|------------------|
| Non-capital losses                     | \$ 10,159        | \$ 16,787        |
| Undeducted SR&ED expenditures          | 46,549           | 41,809           |
| Other deductible temporary differences | 4,882            | 5,066            |
|  | <u>\$ 61,590</u> | <u>\$ 63,662</u> |

Non-capital loss carry forwards will expire in years 2033 and 2034, while SR&ED pool carry forward and other temporary deductible differences have an unlimited carry forward period pursuant to current tax laws.

In assessing deferred income tax assets, management considers whether it is probable that some portion or all of the deferred income tax assets will be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the years in which those temporary differences become deductible.

Management considers the scheduled reversals of deferred income tax liabilities, the character of the deferred income tax assets and available tax planning strategies in making this assessment.

### (d) Investment tax credits:

The Company claims research and development deductions and related refundable and non-refundable ITCs for income tax purposes based on management's interpretation of the applicable legislation in the Income Tax Act (Canada). These claims are subject to a technical and expenditure review by CRA. Although the Company has used its best judgment and understanding of the related income tax legislation in determining the amounts, it is possible that the amounts could change by a material amount in the near term depending on review and audit by CRA. The total amount of ITCs recognized were \$240 (2017 - \$240), which were recorded as a reduction of research and development expenses.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 17. Income taxes (continued):

The Company has \$13,279 (2017 - \$11,517) of federal non-refundable ITCs and \$2,896 (2017 - \$2,011) of Ontario non-refundable ITCs that can be carried forward to reduce federal and Ontario income tax otherwise payable, respectively. Those credits expire between 2029 and 2037 and have not been recognized in these financial statements.

## 18. Financial instruments and capital management:

### (a) Classification and fair values of financial instruments:

The following table sets out the Company's classification and carrying amount, together with the fair value, for each type of financial asset and financial liability as at December 31, 2018 and 2017:

| Classification                           | 2018           |            | 2017           |            |
|--|----------------|------------|----------------|------------|
|  | Carrying value | Fair value | Carrying value | Fair value |
| Financial assets:                        |                |            |                |            |
| Amortized cost:                          |                |            |                |            |
| Cash equivalents                         | \$ 9,809       | \$ 9,809   | \$ 7,203       | \$ 7,203   |
| Accounts receivable                      | 4,876          | 4,876      | 5,028          | 5,028      |
| Financial liabilities:                   |                |            |                |            |
| Amortized cost:                          |                |            |                |            |
| Accounts payable and accrued liabilities | 2,689          | 2,689      | 3,356          | 3,356      |
| Provisions                               | 64             | 64         | —              | —          |
| Finance lease liability                  | 12             | 12         | 160            | 160        |

The carrying values of cash and 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 Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 18. 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 December 31, 2018 and 2017 in the financial statements are summarized below:

| 2018              | Level 1  | Level 2 | Level 3 | Total    |
|-------------------|----------|---------|---------|----------|
| Financial assets: |          |         |         |          |
| Cash equivalents  | \$ 9,809 | \$ –    | \$ –    | \$ 9,809 |

| 2017              | Level 1  | Level 2 | Level 3 | Total    |
|-------------------|----------|---------|---------|----------|
| Financial assets: |          |         |         |          |
| Cash equivalents  | \$ 7,203 | \$ –    | \$ –    | \$ 7,203 |

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



# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 18. 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 December 31, 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 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 tables summarize the number of customers that individually comprises greater than 10% of total accounts receivable or total revenue and their aggregate percentage of the Company's total revenue and accounts receivable:

|                         | Accounts receivable |            |
|-------------------------|---------------------|------------|
|                         | Number of customers | % of total |
| As at December 31, 2018 | 1                   | 84         |
| As at December 31, 2017 | 4                   | 74         |

|                              | Revenue             |            |
|------------------------------|---------------------|------------|
|                              | Number of customers | % of total |
| Year ended December 31, 2018 | 4                   | 70         |
| Year ended December 31, 2017 | 4                   | 72         |

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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

### (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 year ended December 31, 2018, the Company recorded a foreign exchange gain of \$667 (2017 - \$715). At December 31, 2018, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$4,038 (2017 - U.S. \$7,840). At December 31, 2018, Australian dollar-denominated net monetary assets totalled approximately AUD \$897 (2017 - AUD \$2,193).

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 \$637 due to the fluctuation and this would be recorded in the statements of comprehensive loss.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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

### (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 Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 19. 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 financial statements.

The following information provides the required enterprise-wide disclosures:

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

|                          | 2018             | 2017             |
|--------------------------|------------------|------------------|
| United States of America | \$ 15,400        | \$ 19,214        |
| Canada                   | 786              | 764              |
| Asia Pacific             | 1,356            | 2,745            |
| EMEA                     | 4,892            | 4,779            |
|                          | <u>\$ 22,434</u> | <u>\$ 27,502</u> |

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

## 20. Related party transactions:

(a) Key management personnel compensation:

The key management personnel are defined as executive officers of the Company, as well as the Board of Directors, as they have the collective authority and responsibility for planning, directing and controlling the activities of the Company. The following table outlines the total compensation for key management personnel for the year:

|   | 2018            | 2017            |
|---|-----------------|-----------------|
| Salaries and other short-term employee benefits | \$ 1,618        | \$ 1,339        |
| Share-based payments                            | 198             | 70              |
| Long-term incentive and retention plans         | 348             | 394             |
|   | <u>\$ 2,164</u> | <u>\$ 1,803</u> |

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 20. Related party transactions (continued):

The Company has arrangements with certain executive officers for termination and change of control benefits. Upon termination without cause by the Company, these officers are entitled to termination benefits of up to two years' base salary, annual bonus and lump sum cash payment in respect of any unvested stock options. All of the foregoing payments are subject to applicable statutory deductions.

### (b) Loan and share pledge agreements:

In 2011, the Company issued interest-free share purchase loans to its executive officers to exercise all of the stock options that were originally scheduled to vest on or prior to December 31, 2011 and issued 276,250 common shares. During the year ended December 31, 2018, nil (2017 - nil) was repaid relating to common shares. These shares are pledged as security against the share purchase loans and are held as security by the Company until such time as the individual loans are repaid.

### (c) Interim loan agreement:

Pursuant to the Arrangement, the Company entered into an interim loan agreement with NexJ Health Inc. that provides that the Company will advance funds to NexJ Health Inc. as required from time to time up to a maximum of \$1,000; the loan bears annual interest at prime rate, as published by the Royal Bank of Canada. The 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 year ended December 31, 2018, no further advances were made to NexJ Health Inc. and the loan continues to be impaired as at December 31, 2018.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## 20. Related party transactions (continued):

(d) 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 December 31, 2018.

Commencing January 1, 2017, as agreed to between the parties, the Company will only charge for facilities and any third party costs paid on behalf of NexJ Health Inc. and, accordingly, the Company charged \$442 (2017 - \$401) for the year ended December 31, 2018. Outstanding receivables amounting to \$141 (2017 - \$88) have been recorded under prepaid expenses and other assets in the statements of financial position and are to be paid by NexJ Health Inc. subsequent to their respective period end.

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

## 21. Finance income:

|                                       | 2018   | 2017  |
|---------------------------------------|--------|-------|
| Interest on cash and cash equivalents | \$ 145 | \$ 95 |

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# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 22. Restructuring costs:

During the year ended December 31, 2018, the Company executed a restructuring plan whereby certain employees of the Company were severed. An amount of \$402 was recorded as restructuring costs, which relates primarily to employee severance costs. During the year ended December 31, 2018, the Company paid \$222, respectively, in restructuring costs. The remaining amount of \$180 recorded under accounts payable and accrued liabilities on the statements of financial position as at December 31, 2018, will be paid out within a one-year period.

## 23. Loss per share:

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

|  | 2018       | 2017       |
|--|------------|------------|
| Numerator:   |            |            |
| Loss for the year  | \$ (3,891) | \$ (1,930) |
| Denominator:   |            |            |
| Weighted average number of common shares (in thousands): |            |            |
| Basic and diluted  | 20,546     | 20,364     |
| Loss per share:  |            |            |
| Basic and diluted  | \$ (0.19)  | \$ (0.09)  |

During the year ended December 31, 2018, there were 435 (2017 - 1,025) weighted average outstanding stock options excluded from the computation of diluted loss per share as they were anti-dilutive.

# NEXJ SYSTEMS INC.

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

## 24. Expenses by nature:

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

|   | 2018      | 2017      |
|---|-----------|-----------|
| Salaries and other short-term employee benefits | \$ 19,148 | \$ 19,760 |
| Equity-settled share-based payments             | 512       | 417       |
| Cash-settled share-based payments (note 14(b))  | –         | 202       |
| Total personnel costs                           | 19,660    | 20,379    |
| Sales and marketing expense                     | 531       | 733       |
| Office rent expense                             | 1,539     | 1,501     |
| Professional, consulting and recruiting costs   | 1,883     | 2,784     |
| Technology and communication expenses           | 1,241     | 1,233     |
| Depreciation and amortization expense           | 373       | 920       |
| Restructuring costs                             | 402       | –         |
| Other*  | 1,508     | 1,262     |
| Total operating expenses                        | \$ 27,137 | \$ 28,812 |

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

## 25. Contractual obligations:

During the year ended December 31, 2011, the Company entered into an amended lease agreement with its landlord for additional office space to be assumed in 2011 through an operating lease, the term for which ended as at December 31, 2017. In November 2016, the Company entered into a lease agreement to amend the Company's principal facilities lease with the landlord through an operating lease, which came into effect on January 1, 2018 and have a duration of five years ending on December 31, 2022.

Total approximate future minimum lease payments for the leased office premises as at December 31, 2018 are as follows:

|                       |          |
|-----------------------|----------|
| Less than 1 year      | \$ 805   |
| Between 1 and 5 years | 3,012    |
|                       | \$ 3,817 |

In addition, the Company is responsible for additional taxes, maintenance and other direct charges with respect to its leased office premises. The additional amount is expected to be approximately \$1,286 for 2019.



# **NEXJ SYSTEMS INC.**

Notes to Financial Statements (continued)

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

Years ended December 31, 2018 and 2017

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## **26. Guarantees:**

The Company has provided routine indemnifications to its customers against liability if the Company's products infringe on a third party's intellectual property rights. The maximum exposure from these indemnifications cannot be reasonably estimated but is typically limited to the proceeds from sales contracts. Historically, the Company has made no payments relating to these indemnifications, and the Company is not subject to any pending litigation related to such guarantees.