

Condensed Interim Financial Statements  
(Expressed in Canadian dollars)

## **NEXJ SYSTEMS INC.**

Three months ended March 31, 2020 and 2019  
(Unaudited)

# NEXJ SYSTEMS INC.

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

	March 31, 2020	December 31, 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 9,215	\$ 5,123
Accounts receivable	992	5,475
Prepaid expenses and other assets	1,879	1,757
Total current assets	12,086	12,355
Non-current assets:		
Property and equipment	969	969
Right-of-use assets (note 3)	1,608	1,747
Goodwill	1,753	1,753
Investments	284	260
Contract costs (note 4)	105	136
Other assets	617	663
Total non-current assets	5,336	5,528
Total assets	\$ 17,422	\$ 17,883
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,980	\$ 1,969
Deferred revenue	7,054	6,550
Lease liability (note 5)	929	715
Total current liabilities	9,963	9,234
Non-current liabilities:		
Accrued liabilities	82	117
Deferred revenue	522	281
Lease liability (note 5)	1,808	2,045
Total non-current liabilities	2,412	2,443
Total liabilities	12,375	11,677
Shareholders' equity:		
Share capital (note 6)	82,915	82,915
Share purchase loans	(3,598)	(3,598)
Contributed surplus (note 7)	8,945	8,874
Accumulated other comprehensive income (loss)	15	(9)
Deficit	(83,230)	(81,976)
Total shareholders' equity	5,047	6,206
Total liabilities and shareholders' equity	\$ 17,422	\$ 17,883

See accompanying notes to the condensed interim financial statements.

# NEXJ SYSTEMS INC.

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

	Three months ended March 31,	
	2020	2019
Revenue:		
License and subscription fees	\$ 24	\$ 409
Professional services	1,671	1,525
Maintenance and support	2,286	2,334
	<u>3,981</u>	<u>4,268</u>
Cost of revenue	<u>1,347</u>	<u>1,876</u>
Gross profit	2,634	2,392
Expenses:		
Research and development, net	2,018	2,754
Sales and marketing	790	769
General and administrative, net	1,441	1,353
	<u>4,249</u>	<u>4,876</u>
Loss from operations	(1,615)	(2,484)
Foreign exchange gain (loss)	373	(95)
Finance income	24	39
Finance expense	(36)	(38)
	<u>361</u>	<u>(94)</u>
Loss for the period	(1,254)	(2,578)
Other comprehensive income:		
Item that will not be reclassified to profit or loss:		
Unrealized gain on equity securities	24	–
Loss for the period and comprehensive loss	<u>\$ (1,230)</u>	<u>\$ (2,578)</u>
Loss per share (note 9):		
Basic and diluted	\$ (0.06)	\$ (0.13)
Weighted average number of common shares outstanding, in thousands (note 9):		
Basic and diluted	20,677	20,532

See accompanying notes to the condensed interim financial statements.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020	Common shares		Share purchase loans*	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	Number*	Amount					
Balance, January 1, 2020	20,164	\$ 82,915	\$ (3,598)	\$ 8,874	\$ (9)	\$ (81,976)	\$ 6,206
Comprehensive loss	-	-	-	-	24	(1,254)	(1,230)
Share-based payment expense (note 7(a))	-	-	-	71	-	-	71
<b>Balance, March 31, 2020</b>	<b>20,164</b>	<b>\$ 82,915</b>	<b>\$ (3,598)</b>	<b>\$ 8,945</b>	<b>\$ 15</b>	<b>\$ (83,230)</b>	<b>\$ 5,047</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 March 31, 2020, 942 common shares were legally issued to employees in connection with these agreements and included in the total outstanding common shares of 21,106.

Three months ended March 31, 2019	Common shares		Share purchase loans*	Contributed surplus	Accumulated other comprehensive income (loss)	Deficit	Total shareholders' equity
	Number*	Amount					
Balance, January 1, 2019	20,168	\$ 82,905	\$ (3,598)	\$ 8,366	\$ -	\$ (74,288)	\$ 13,385
Comprehensive loss	-	-	-	-	-	(2,578)	(2,578)
Share-based payment expense (note 7(a))	-	-	-	122	-	-	122
Exercise of employee stock options (note 7(a))	4	20	-	(22)	-	-	(2)
<b>Balance, March 31, 2019</b>	<b>20,172</b>	<b>\$ 82,925</b>	<b>\$ (3,598)</b>	<b>\$ 8,466</b>	<b>\$ -</b>	<b>\$ (76,866)</b>	<b>\$ 10,927</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 March 31, 2019, 942 common shares were legally issued and outstanding to employees in connection with these agreements and included in the total outstanding common shares of 21,114.

See accompanying notes to the condensed interim financial statements.

# NEXJ SYSTEMS INC.

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

	Three months ended March 31,	
	2020	2019
<b>Cash flows from (used in) operating activities:</b>		
Loss for the period	\$ (1,254)	\$ (2,578)
Adjustments for:		
Depreciation and amortization of property and equipment	72	89
Depreciation of right-of-use assets	139	153
Amortization of contract costs	31	33
Share-based payment expense	71	122
Finance income	(24)	(39)
Finance expense	36	38
Foreign exchange gain	(102)	(7)
Change in non-cash operating working capital:		
Accounts receivable	4,483	1,264
Prepaid expenses and other assets	(68)	(116)
Accounts payable and accrued liabilities	(26)	(43)
Deferred revenue	739	2,114
<b>Net cash flows from operating activities</b>	<b>4,097</b>	<b>1,030</b>
<b>Cash flows used in financing activities:</b>		
Costs of exercise of stock options	–	(2)
Payment of lease liability (completed contract)	–	(12)
Payment of lease liability (ongoing contract)	(60)	–
<b>Net cash flows used in financing activities</b>	<b>(60)</b>	<b>(14)</b>
<b>Cash flows from (used in) investing activities:</b>		
Purchase of property and equipment	(71)	(8)
Interest received	24	39
<b>Net cash flows from (used in) investing activities</b>	<b>(47)</b>	<b>31</b>
Effects of exchange rates on cash and cash equivalents	102	7
Increase in cash and cash equivalents	4,092	1,054
Cash and cash equivalents, beginning of period	5,123	10,951
<b>Cash and cash equivalents, end of period</b>	<b>\$ 9,215</b>	<b>\$ 12,005</b>
<b>Supplemental cash flow information:</b>		
Acquisition of property and equipment not yet paid	\$ 1	\$ 80

See accompanying notes to the condensed interim financial statements.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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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 condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), International Accounting Standard ("IAS") 34, Interim Financial Reporting and International Financial Reporting Interpretations Committee ("IFRIC") interpretations, as issued by the International Accounting Standards Board ("IASB") and using the same accounting policies as described in the Company's December 31, 2019 financial. The notes presented in these condensed interim financial statements include, in general, only significant changes and transactions occurring since the Company's last year end, and are not fully inclusive of all disclosures required by IFRS for annual financial statements. These condensed interim financial statements should be read in conjunction with the annual audited financial statements, including the notes thereto, for the years ended December 31, 2019 and 2018.

These condensed interim financial statements were approved by the Board of Directors on April 29, 2020.

### (b) Basis of presentation:

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

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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## 2. Basis of preparation (continued):

(c) Comparative information:

Certain comparative information has been adjusted for the three months ended March 31, 2019 as a result of adjustments identified in connection with the issuance of the Company's interim financial statements for three and six months ended June 30, 2019. The adjustments were with respect to certain variable lease payments previously recorded as lease assets and obligations have now been recorded as operating expenses. The adjustments were not considered material to the March 31, 2019 condensed interim statements of comprehensive loss.

## 3. Right-of-use assets:

The following table presents the right-of-use assets for the Company:

	Head lease	Offices subleases	Total right-of-use assets
Balance, beginning of period	\$ 2,306	\$ (559)	\$ 1,747
Depreciation	(192)	53	(139)
Balance, end of period	\$ 2,114	\$ (506)	\$ 1,608

As a result of applying IFRS 16, the Company has recognized depreciation and net accretion expenses, instead of lease expense. During the three months ended March 31, 2020, the Company recognized \$139 (2019 - \$153) of depreciation expense.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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#### 4. Contract costs:

	March 31, 2020	December 31, 2019
Balance, January 1	\$ 136	\$ 227
Contract costs incurred	—	120
Amortization	(31)	(211)
<b>Balance, end of period</b>	<b>\$ 105</b>	<b>\$ 136</b>

The Company's total capitalized contract costs net of accumulated depreciation are \$105 as at March 31, 2020 (December 31, 2019 - \$136) and relates 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. During the three months ended March 31, 2020, amortization amounting to \$31 (2019 - \$71) was recognized as part sales and marketing in the condensed interim statements of comprehensive loss.



# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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## 5. Lease liability:

The Company's leases are for office space. These leases contain no renewal options.

The following table is a summary of the changes in the lease liability during the period:

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Balance, beginning of period	\$ 2,760
Interest on lease liabilities	37
Lease payments	(60)
Balance, end of period	2,737
Less current portion	929
Non-current portion	\$ 1,808

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During the three months ended March 31, 2020, the Company recognized \$37 (2019 - \$45) of accretion expense from these leases.

## 6. Share capital:

The Company has had a Normal Course Issuer Bid ("NCIB") in place in 2019 and has repurchased its common shares through the NCIB. For the NCIB in 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 three months ended March 31, 2020, the Company repurchased and cancelled nil (2019 - nil) of its common shares through trades on the TSX for an aggregate purchase price of \$nil (2019 - \$nil), which was recorded as a reduction of share capital.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

## 7. Share-based payment arrangements:

At March 31, 2020, the Company had the following share-based payment arrangements:

### (a) Stock option plan:

The total share-based payment expense and the amount credited to contributed surplus for the three months ended March 31, 2020 was \$71 (2019 - \$122). The following table outlines the activity for stock options for the three months ended March 31, 2020 and 2019:

	2020		2019	
	Number of options (000s)	Weighted average exercise price	Number of options (000s)	Weighted average exercise price
Outstanding, beginning of period	2,047	\$ 1.76	1,951	\$ 1.87
Granted	–	–	145	1.47
Exercised	–	–	(20)	1.35
Cancelled	(22)	1.91	(13)	2.64
Expired	(64)	3.70	–	–
Outstanding, end of period	1,961	1.70	2,063	1.84
Exercisable, end of period	1,386	\$ 1.72	1,269	\$ 1.76

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

The Company's stock option plan provides a cashless exercise feature to holders of options, where such holders of options can exercise their vested options and in return, the Company will deliver the number of common shares equal to the value of the in-the-money portion of new options exercised whereby option holders receive a number of whole common shares of the Company equivalent to the market value of the options over the exercise price net of associated income taxes in connection with the exercise. For the three months ended March 31, 2020, nil (2019 - 20,000) options were exercised on a cashless settlement basis, resulting in the issuance of nil (2019 - 3,864) common shares of the Company.

At March 31, 2020, the following table provides the outstanding options at their respective exercise prices and the related weighted average remaining contractual life:

Exercise price	Number outstanding (000s)	Weighted average remaining contractual life (years)
\$1.00 - \$2.00	1,670	3.92
\$2.01 - \$3.00	281	3.12
\$3.01 - \$4.00	—	—
\$4.01 - \$4.50	10	3.98
	1,961	3.81

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

The Company grants DSUs to the members of the Board of Directors as their annual remuneration for the services rendered as directors on the Company's board. These DSUs are awarded as equity-settled or cash-settled, vest immediately and are settled when the board member is no longer rendering service to the Company. For cash-settled awards, the Company has recorded the changes in the fair value of the award in the condensed interim statements of comprehensive loss using the Company's share price as of the reporting date. The amount of the award payable is based on the number of units outstanding multiplied by the share price of the Company at the date of the payout. For the DSUs to be equity-settled, the Company had a reserve, as approved by the shareholders and TSX of 600,000 common shares which has been fully exhausted with the grant of equity-settled DSUs to the directors in the third quarter of fiscal 2019.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

Until such time, the Company gets additional common shares to be reserved approved by the shareholders and TSX, only cash-settled DSUs would be issued to the directors.

The following table outlines the activity for the DSUs for the three months ended March 31, 2020 and 2019:

	2020		2019	
	Number	Amount	Number	Amount
	(000s)		(000s)	
Outstanding, beginning of period	650	\$ 1,402	362	\$ 1,167
Changes in fair value of cash-settled award	–	(35)	–	–
Outstanding, end of period	650	\$ 1,367	362	\$ 1,167
Comprising:				
Equity-settled award	513	\$ 1,285	362	\$ 1,167
Cash-settled award	137	82	–	–

## 8. Restructuring:

During the year ended December 31, 2019, the Company executed a restructuring plan whereby certain employees of the Company were severed. An amount of \$614 was recorded as restructuring costs, which relates primarily to employee severance costs. During the three months ended March 31, 2020, the Company paid \$88 (2019 - \$93) in restructuring costs. The remaining amount of \$62 recorded under accounts payable and accrued liabilities on the condensed interim statements of financial position as at March 31, 2020, will be paid out during the 2020 fiscal year.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

## 9. Loss per share:

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

	Three months ended March 31,	
	2020	2019
Numerator:		
Loss for the period	\$ (1,254)	\$ (2,578)
Denominator:		
Weighted average number of shares (in thousands):		
Basic and diluted	20,677	20,532
Loss per share:		
Basic and diluted	\$ (0.06)	\$ (0.13)

During the three months ended March 31, 2020, there were nil (2019 - 137) stock options that were excluded from the computation of diluted loss per share.

## 10. Related party transactions:

### (a) Interim loan agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., the Company entered into an interim loan agreement with NexJ Health Inc. that provides that the Company will advance funds to NexJ Health Inc. as required from time to time up to a maximum of \$1,000; the loan bears annual interest at prime rate, as published by the Royal Bank of Canada. The loan receivable is repayable on the date of the closing of a rights offering or other such financing by NexJ Health Inc., or such later date as agreed to by the parties. Management evaluated the recoverability of the loan, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded that it is impaired and recorded a provision of \$994 in the condensed interim statements of comprehensive loss for the year ended December 31, 2016. During the three months ended March 31, 2020, no further advances were made to NexJ Health Inc. and the loan continues to be impaired as at March 31, 2020.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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## 10. Related party transactions (continued):

### (b) Shared services agreement:

Pursuant to the completed plan of arrangement in 2016 between the Company, NexJ Health Inc. and NexJ Health Holdings Inc., the Company also entered into a shared services agreement with NexJ Health Inc. under which the Company was to provide services and support functions relating to facilities, human resources, finance and IT services for a monthly fee agreed upon between the parties. The Company charged \$636 for these services for the year ended December 31, 2016. Management evaluated the recoverability of these charges, including the financial position of NexJ Health Inc. as at December 31, 2016 and concluded that it was impaired and recorded a provision of \$636 in the condensed interim statements of comprehensive loss for the year ended December 31, 2016. These amounts continue to be impaired as at March 31, 2020.

On January 1, 2019, the parties entered into an agreement for the sublease of the office space occupied by NexJ Health Inc. The Company classifies the sublease in accordance with the provision of IFRS 16, Leases and consequently has derecognized right-of-use asset and lease receivable relating to the sublease. Right-of-use asset has been measured based on lease payments to be received, discounted using the Company's incremental borrowing rate.

Currently, the Company charges for the sublease of office space, based on agreement signed between the parties, as well as for any third party costs paid on behalf of NexJ Health Inc. Accordingly, the Company charged \$87 (2019 - \$99) for the three months ended March 31, 2020. Outstanding receivables amounting to \$712 (2019 - \$259) have been recorded under prepaid expenses and other assets in the condensed interim statements of financial position.

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

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

## 11. 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 March 31, 2020 and December 31, 2019:

Classification	March 31, 2020		December 31, 2019	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets:				
Amortized cost:				
Cash equivalents	\$ 4,965	\$ 4,965	\$ 1,198	\$ 1,198
Accounts receivable	992	992	5,475	5,475
FVTOCI:				
Investments	284	284	260	260
Financial liabilities:				
Amortized cost:				
Accounts payable and accrued liabilities	2,062	2,062	1,969	1,969
Lease liability	2,737	2,737	2,760	2,760

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

Fair value measurements:

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

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

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

In the tables below, the Company has segregated all financial assets and financial liabilities that are measured at fair value into the most appropriate level within the fair value hierarchy, based on the inputs used to determine the fair value at the measurement date. Financial assets and financial liabilities measured at fair value as at March 31, 2020 and December 31, 2019 in the condensed interim financial statements are summarized below:

March 31, 2020	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 4,965	\$ –	\$ –	\$ 4,965
Investments	–	–	284	284

December 31, 2019	Level 1	Level 2	Level 3	Total
Financial assets:				
Cash equivalents	\$ 1,198	\$ –	\$ –	\$ 1,198
Investments	–	–	260	260

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

### (b) Market risk:

The Company, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of these risks as at March 31, 2020:

#### (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.



# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

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

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

	Revenue	
	Number of customers	% of total
Three months ended March 31, 2020	3	65
Three months ended March 31, 2019	4	66

	Accounts receivable	
	Number of customers	% of total
As at March 31, 2020	3	93
As at December 31, 2019	3	85

### (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.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

The majority of the Company's financial liabilities comprise accounts payable and accrued liabilities. Given the Company's available cash and other liquid resources as compared to its liabilities, management assesses the Company's liquidity risk to be low.

### (iii) Foreign exchange risk:

The Company transacts business in multiple currencies, the most significant of which are the U.S. dollar and Australian dollar. Currently, the Company does not enter into foreign exchange contracts to manage this exposure, but may do so in the future. The Company has foreign currency exposure with respect to cash equivalents, accounts receivable and accounts payable denominated in U.S. dollars and Australian dollars. It is also exposed to foreign currency risk on revenue and expenses where it invoices or procures in U.S. dollars and Australian dollars. During the three months ended March 31, 2020, the Company recorded a foreign exchange gain of \$373 (2019 - loss of \$95). At March 31, 2020, U.S. dollar-denominated net monetary assets totalled approximately U.S. \$2,680 (2019 - U.S. \$5,311). At March 31, 2020, Australian dollar-denominated net monetary assets totalled approximately AUD \$1,252 (2019 - AUD \$929).

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 \$489 due to the fluctuation and this would be recorded in the condensed interim statements of comprehensive loss.

### (iv) Interest rate risk:

Interest rate risk arises because of the fluctuation in interest rates. The Company is subject to interest rate risk on its cash equivalents. The impact of change in interest rates is not expected to be significant.

### (c) Capital management:

The Company defines capital that it manages as the aggregate of its shareholders' equity, which comprises issued capital, contributed surplus and deficit.

# NEXJ SYSTEMS INC.

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

Three months ended March 31, 2020 and 2019  
(Unaudited)

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

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.

## 12. Segment reporting:

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

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	Three months ended March 31,	
	2020	2019
United States of America	\$ 2,957	\$ 3,104
Canada	27	177
EMEA	649	690
Asia Pacific	348	297
	<hr/>	<hr/>
	\$ 3,981	\$ 4,268

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